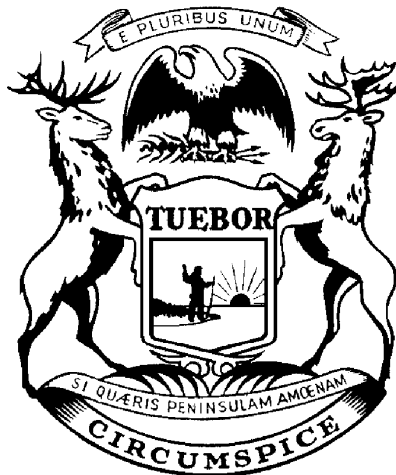


Michigan State Police Retirement System
a Pension Trust Fund of the State of Michigan

**Comprehensive Annual Financial Report
for the Fiscal Year Ended September 30, 2003**



M S P R S

**Prepared by:
Financial Services
for
Office of Retirement Services
P.O. Box 30171
Lansing, Michigan 48909-7671
517-322-5103
1-800-381-5111**

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The cost of printing this report was \$1,702.19 (\$6.81 each), which was paid for by the System at no cost to taxpayers.

INTRODUCTORY SECTION

Certificate of Achievement
Letter of Transmittal
Retirement Board Members
Advisors & Consultants
Organization Chart

INTRODUCTORY SECTION

Certificate of Achievement

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Michigan State Police Retirement System

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
September 30, 2002

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

INTRODUCTORY SECTION

Letter of Transmittal

State Police Retirement System
P.O. Box 30171
Lansing, Michigan 48909-7671
Telephone 517-322-5103
Outside Lansing 1-800-381-5111

STATE OF MICHIGAN

JENNIFER M. GRANHOLM, Governor

DEPARTMENT OF MANAGEMENT AND BUDGET

December 5, 2003

The Honorable Jennifer M. Granholm
Governor, State of Michigan,

Members of the Legislature
State of Michigan,

Retirement Board Members
and
Members, Retirees and Beneficiaries

Ladies and Gentlemen:

We are pleased to present the comprehensive annual financial report of the Michigan State Police Retirement System (System) for fiscal year 2003.

Responsibility for both the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the leadership team of the System. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner designed to present fairly the financial position and results of operations of the System.

The Michigan State Police Retirement System was established by legislation under Public Act 251 of 1935. It now operates under the provisions of Public Act 182 of 1986, as amended, and is administrated by the Office of Retirement Services (ORS). The number of active and retired members and beneficiaries of the System is presented in Note 1 of the financial statements in the Financial Section of this report. The purpose of the System is to provide benefits for all State Police. The services performed by the staff provide benefits to members.

The 2003 comprehensive annual financial report is presented in five sections. The Introductory Section contains the transmittal letter and identifies the administrative organization and professional consultants used by the System. The Financial Section contains the independent auditor's report, management's discussion and analysis, financial statements and notes of the System, and certain supplemental schedules. The Investment Section summarizes investment activities. The Actuarial Section contains the independent consulting actuary's certification, an outline of actuarial assumptions and methods, and other actuarial statistics. The Statistical Section contains statistical tables of significant data pertaining to the System.

INTRODUCTORY SECTION

Letter of Transmittal (Continued)

MAJOR GOALS ACCOMPLISHED

The Michigan Department of Management and Budget, Office of Retirement Services continues to be resourceful and to drive forward creative innovations that build on our dedication to customer service. Our daily business activities are tied to achieving our mission of delivering pensions, related benefits, and services to promote the future financial security of our customers. In this fiscal year, we have welcomed our new governor and director, deployed the beginnings of our Vision ORS technology solutions, responded to new policies and legislation, and energized and trained our staff on the new tools available to them. Here are some of the highlights.

Focus on Our Customer

During the 2003 fiscal year, ORS hosted 9,282 members at our pre-retirement information meetings and personally counseled 7,632 members. This is in addition to the 242,000 members who took advantage of our toll-free phone service for advice and services.

An independently-conducted survey of 519 retirees and active members tells us that our services met or exceeded the expectations of 87% of our customers. This survey was the last in a series of four conducted over the course of a year. The scores for this most recent survey show that our services are more accurate, our information is more useful, and the knowledge of our counselors has risen. We continue to work on providing services faster and on delivering services at the time our customers most need them.

The Health Insurance Portability and Accountability Act (HIPAA) triggered an important awareness of the large amount of private information we handle daily. It gave us the chance to evaluate existing policies and procedures and to ensure that member information is handled confidentially. Where needed, policies were revised and all ORS staff received training on HIPAA provisions.

Optimize Technology and Continuously Improve

State Police were supplied with a new investment tool: the CitiStreet Advisor. This web-based product helps customers set personal retirement goals and recommends savings and investment adjustments. It evaluates CitiStreet investments and allows customers to include spouse's investment information. This is the first of many retirement planning tools that will be offered to help customers plan for their financial futures. CitiStreet is the third party administrator and custodian for the deferred compensation/defined contribution plans.

To get the documents that drive our business processed faster, ORS deployed document scanning in our mailroom. With this innovation, documents are received, scanned and indexed, then delivered into electronic in-baskets. Applications, correspondence, insurance changes and other requests are now delivered to the people who make the changes within four hours of receiving the mail.

The challenge of reaching our membership in northern Michigan with quality retirement planning information is now being met with the help of videoconferencing tools. Videoconferencing allows ORS staff to provide face-to-face presentations for as many as three different locations at the same time. Attendees will be able to see the presenter, view the materials presented (such as Power Point slides and printed documents), and ask questions.

Member surveys and letters, conversations with members and member organizations, and regular discussions with our staff tell us that we are making great strides toward our vision. This success inspires us to continue to improve. The continued deployment of our Vision Project technology will provide even more opportunities to evaluate and improve ORS' service to customers.

CERTIFICATE OF ACHIEVEMENT

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the System for its comprehensive annual financial report for the fiscal year ended September 30, 2002. In order to be awarded a Certificate of Achievement, a government must publish

Letter of Transmittal (Continued)

an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe our current report continues to meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine its eligibility for another certificate.

FINANCIAL INFORMATION

Please refer to Management's Discussion and Analysis in the Financial Section for condensed financial information and activities of the current and prior years.

Accounting System

Transactions of the System are reported on the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when incurred. Participants' benefits are recorded when payable by law. We believe that the accounting and administrative internal controls established by the System provide reasonable assurance that the System is carrying out its responsibilities in safeguarding its assets, in the reliability of the financial records for preparing the financial statements, and in maintaining accountability for its assets.

INTERNAL CONTROL

The leadership team of the System is responsible for maintaining adequate internal accounting controls designed to provide reasonable assurance that transactions are executed in accordance with management's general or specific authorization, and are recorded as necessary to maintain accountability for assets and to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America. The internal control structure is designed to provide reasonable assurance regarding the safekeeping of assets and reliability of all financial records.

INVESTMENT

The State Treasurer is the investment fiduciary and custodian of all investments of the System pursuant to State law. The primary investment objective is to maximize the rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to eliminate inordinate risks and to meet the actuarial assumption for the investment return rate. The investment activity for the year produced a total rate of return on the portfolio of 14.8%. For the last five years, the System has experienced an annualized rate of return of 3.8%. A summary of asset allocation and rates of return can be found in the Investment Section of this report.

FUNDING

Funds are derived from the excess of additions to plan net assets over deductions from plan net assets. Funds are accumulated by the System in order to meet future benefit obligations to retirees and beneficiaries. The percentage computed by dividing the actuarial value of assets by the actuarial accrued liability is referred to as the "funded ratio." This ratio provides an indication of the funding status of the System and generally, the greater this percentage, the stronger the System. Effective in fiscal year 2001, the System used the actuarial valuation from the previous fiscal year for this report. This approach is consistent with Governmental Accounting Standards Board (GASB) Statement Number 25. Consistent with this approach, the most recent actuarial valuation was performed as of September 30, 2002. The actuarial value of the assets and actuarial accrued liability of the System were \$1.141 billion and \$1.136 billion, respectively, resulting in a funded ratio of 100.5% at September 30, 2002. A historical perspective of funding levels for the System is presented on the Schedule of Funding Progress in the Required Supplementary Information in the Financial Section of this report.

POSTEMPLOYMENT BENEFITS

The System also administers the postemployment health benefits (health, dental, and vision) offered to retirees. The benefits are funded on a cash or "pay as you go" basis. An actuarial valuation was completed as of September 30, 2002,

INTRODUCTORY SECTION

Letter of Transmittal (Continued)

to determine the actuarial accrued liability if the benefits were to be pre-funded. If these benefits were pre-funded, the actuarial accrued liability for these benefits would be approximately \$540 million and the employer contribution for health care benefits would be 31.9% of payroll.

PROFESSIONAL SERVICES

An annual audit of the System was conducted by Andrews Hooper & Pavlik P.L.C., independent auditors. The independent auditor's report on the System's financial statements is included in the Financial Section of this report.

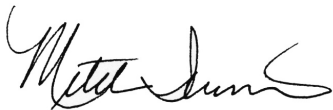
Statute requires that an annual actuarial valuation be conducted. The purpose of the valuation is to evaluate the mortality, service, compensation and other financial experience of the System and to recommend employer-funding rates for the subsequent year. This annual actuarial valuation was completed by the Segal Company for the fiscal year ended September 30, 2002. Actuarial certification and supporting statistics are included in the Actuarial Section of this report.

ACKNOWLEDGMENTS

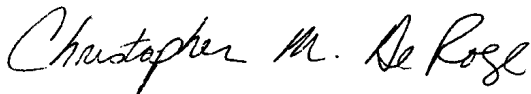
The preparation of this report was accomplished with the dedication and cooperation of many people. It is intended to provide complete and reliable information as a basis for making management decisions, as a means of determining compliance with legal provisions, and as a means for determining responsible stewardship of the funds of the System.

We would, therefore, like to express our appreciation for the assistance given by staff, advisors and many people who contributed to its preparation. We believe their combined efforts have produced a report that will enable the employers and plan members to better evaluate and understand the Michigan State Police Retirement System. Their cooperation contributes significantly to the success of the System.

Sincerely,



Mitch Irwin, Director
Department of Management and Budget



Christopher M. DeRose, Director
Office of Retirement Services

INTRODUCTORY SECTION

Administrative Organization

Retirement Board Members *

Capt. Christopher Lewis
Representing Director, Dept. of State
Police
Statutory Member

George M. Elworth
Representing Attorney General
Statutory Member

Sergeant Richard Hale
Representing Sergeants and Below
Term Expires December 31, 2003

Kenneth Harb
General Public
Term Expires December 31, 2003

David Fink
Representing State Employer
Statutory Member

Dr. James S. Neubecker, C.P.A., Chair
Representing Auditor General

Mark Haas
Representing State Treasurer
Statutory Member

Inspector Brian Ray
Representing Lieutenants and Above
Term Expires December 31, 2004

Lt. Col. James R. Snody, Jr., Vice
Chair
Retiree Member
Term Expires December 31, 2002

* Statute provides that board members may continue to serve after their term expires until they are either replaced or reappointed.

Administrative Organization

Department of Management and Budget
Office of Retirement Services
P.O. Box 30171
Lansing, Michigan 48909-7671
517-322-5103
1-800-381-5111

Advisors and Consultants

Actuary
The Segal Company
Michael J. Karlin, F.S.A., M.A.A.A.
New York, New York

Auditors
Thomas H. McTavish, C.P.A.
Auditor General
State of Michigan

Investment Manager and Custodian
Jay B. Rising
State Treasurer
State of Michigan

Andrews Hooper & Pavlik P.L.C.
Jeffrey J. Fineis, C.P.A.
Okemos, Michigan

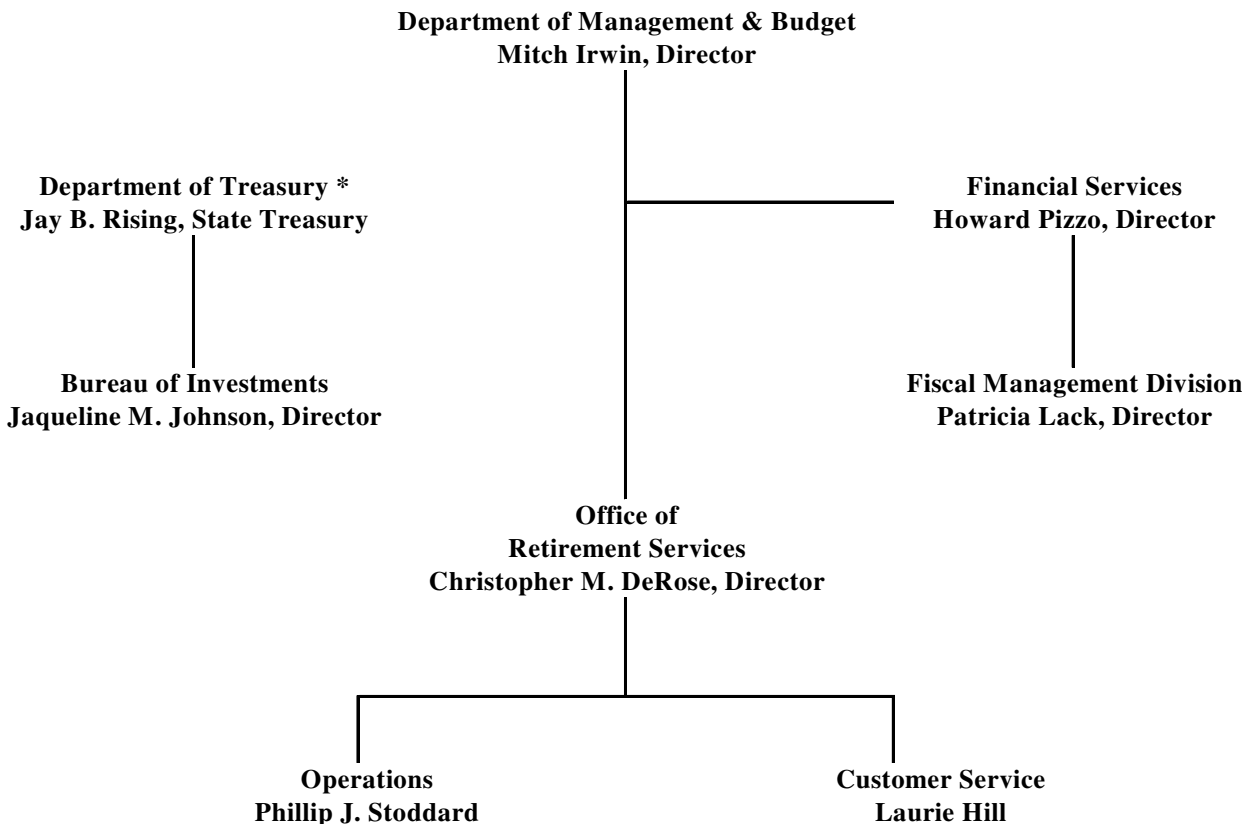
Legal Advisor
Mike Cox
Attorney General
State of Michigan

**Investment Performance
Measurement**
CRA RogersCasey
Chicago, Illinois

INTRODUCTORY SECTION

Administrative Organization (Continued)

Organization Chart



* The investments of the System are managed by the Michigan Department of Treasury. Information on the investments and the fiduciary, Michigan Department of Treasury, can be found in the Investment Section, Introduction. In addition, see the Investment Section, Schedule of Investment Fees and Schedule of Investment Commissions, for information regarding the investment fees and commissions paid as well as investment professionals utilized by the System.

FINANCIAL SECTION

Independent Auditor's Report
Management's Discussion and Analysis
Basic Financial Statements
Notes to Basic Financial Statements
Required Supplementary Information
Notes to Required Supplementary Information
Supporting Schedules

FINANCIAL SECTION

Independent Auditor's Report



ANDREWS HOOPER & PAVLIK P.L.C.
Certified Public Accountants

Mr. Mitch Irwin, Director, Department of Management and Budget
Mr. Christopher M. DeRose, Director, Office of Retirement Services
Mr. Thomas H. McTavish, CPA, Auditor General, Office of the Auditor General
Michigan State Police Retirement System Board

We have audited the accompanying statements of pension plan and postemployment healthcare plan net assets of the Michigan State Police Retirement System, as of September 30, 2003 and 2002, and the related statements of changes in pension plan and postemployment healthcare plan net assets for the years then ended. These financial statements are the responsibility of the management of the Michigan State Police Retirement System. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial status of the Michigan State Police Retirement System, as of September 30, 2003 and 2002, and the changes in its financial status for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplementary information and supporting schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The required supplementary information and supporting schedules are the responsibility of the Michigan State Police Retirement System's management. The Schedules of Funding Progress and Employer Contributions and related notes and the supporting schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements, and in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

The Management's Discussion and Analysis (MD&A) is not a required part of the basic financial statements but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this supplemental information. However, we did not audit the information and express no opinion on it. The Introductory, Investment, Actuarial, and Statistical Sections were not audited by us and, accordingly, we express no opinion on those sections.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 26, 2003 on our consideration of the Michigan State Police Retirement System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, and contracts. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Andrews Hooper & Pavlik P.L.C.

Okemos, Michigan
November 26, 2003

4295 Okemos Road, Suite 200 • Okemos, Michigan 48864 • ph 517.487.5000 fx 517.487.9535 • www.ahpplc.com

Management's Discussion and Analysis

Our discussion and analysis of the Michigan State Police Retirement System's (System) financial performance provides an overview of the System's financial activities for the fiscal year ended September 30, 2003. Please read it in conjunction with the transmittal letter in the Introductory Section on page 5 and the basic financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- System assets exceeded its liabilities at the close of fiscal year 2003 by \$979.2 million (reported as *net assets*). Net assets are held in trust to meet future benefit payments.
- System funding objective is to meet long-term benefit obligations through contributions and investment income. As of September 30, 2002, the funded ratio was approximately 100.5%.
- Revenues for the year were \$190.5 million, which is comprised of contributions of \$57.1 million and investment gains of \$133.4 million.
- Expenses increased over the prior year from \$90.8 million to \$97.6 million or 7.5%. Most of this increase represented increased retirement benefits paid.

THE STATEMENT OF PLAN NET ASSETS AND THE STATEMENT OF CHANGES IN PLAN NET ASSETS

This Comprehensive Annual Financial Report (CAFR) consists of two financial statements; *The Statement of Pension Plan and Postemployment Healthcare Plan Net Assets* (page 18) and *The Statement of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets* (page 19). These financial statements report information about the System, as a whole, and about its financial condition that should help answer the question: Is the System, as a whole, better off or worse off as a result of this year's activities? These statements include all assets and liabilities using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, all revenues and expenses are taken into account regardless of when cash is received or paid.

The Statement of Pension Plan and Postemployment Healthcare Plan Net Assets presents all of the System's assets and liabilities, with the difference between the two reported as net assets. Over time, increases and decreases in net assets measure whether the System's financial position is improving or deteriorating. *The Statement of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets* presents how the System's net assets changed during the most recent fiscal year. These two financial statements should be reviewed along with the Schedule of Funding Progress and Schedule of Employer Contributions to determine whether the System is becoming financially stronger or weaker and to understand changes over time in the funded status of the System.

FINANCIAL SECTION

Management's Discussion and Analysis (Continued)

FINANCIAL ANALYSIS

System total assets as of September 30, 2003, were \$1,004.8 million and were mostly comprised of cash, investments and contributions due from employers. Total assets increased \$77.2 million or 8.3% from fiscal year 2002 primarily due to increased investment earnings, and decreased \$157.8 million or 14.5% between fiscal years 2001 and 2002 primarily due to decreased investment earnings.

Total liabilities as of September 30, 2003, were \$25.6 million and were mostly comprised of warrants outstanding, accounts payable, and obligations under securities lending. Total liabilities decreased \$15.7 million or 38.0% between fiscal years 2002 and 2003 primarily due to a decrease in obligations under securities lending and a decrease in payables from the purchase of investments, and decreased \$8.2 million or 16.6% between fiscal years 2002 and 2001 primarily due to a decrease in obligations under securities lending and a decrease in payables from the purchase of investments.

System assets exceeded its liabilities at the close of fiscal year 2003 by \$979.2 million. Total net assets held in trust for pension and health benefits increased \$92.9 million or 10.5% between fiscal years 2002 and 2003, primarily due to favorable market conditions and an increase in investment earnings. This is in contrast to fiscal year 2002, when net assets decreased by \$149.6 million or 14.4% from the prior year.

Net Assets (In Thousands)

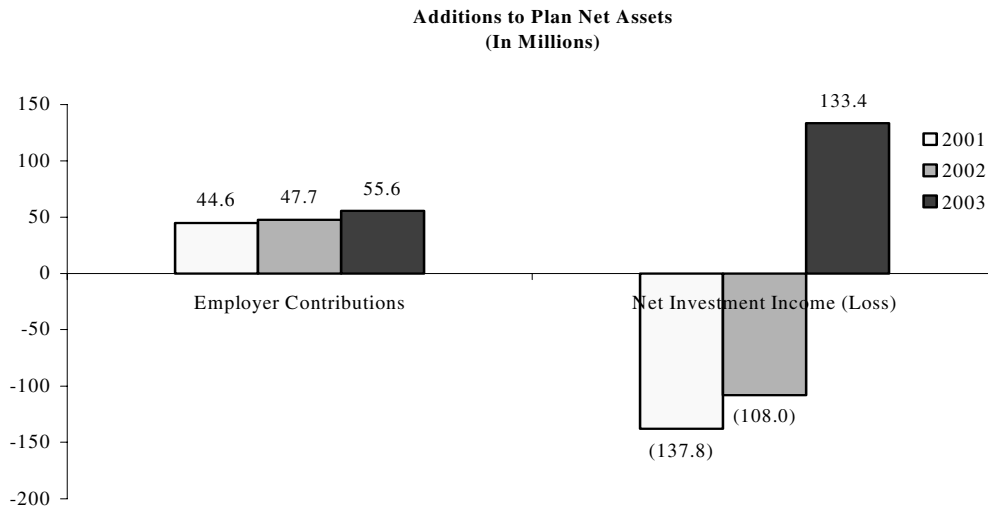
	<u>2003</u>	<u>Increase (Decrease)</u>		<u>2002</u>	<u>Increase (Decrease)</u>		<u>2001</u>
Assets							
Cash	\$ 3,987	145.2 %	\$	1,626	(76.8) %	\$	7,020
Receivables	4,871	(12.4)		5,559	-		5,559
Investments	995,932	8.2		920,401	(14.2)		1,072,818
Total Assets	<u>1,004,790</u>	<u>8.3%</u>		<u>927,586</u>	<u>(14.5)</u>		<u>1,085,397</u>
Liabilities							
Warrants outstanding	226	1.3		223	(32.6)		331
Accounts payable and other accrued liabilities	442	(51.3)		908	(79.2)		4,373
Obligations under securities lending	24,894	(38.0)		40,124	(10.4)		44,764
Total Liabilities	<u>25,562</u>	<u>(38.0)</u>		<u>41,255</u>	<u>(16.6)</u>		<u>49,468</u>
Total Net Assets	<u>\$ 979,228</u>	<u>10.5 %</u>	<u>\$</u>	<u>886,331</u>	<u>(14.4) %</u>	<u>\$</u>	<u>1,035,929</u>

Management's Discussion and Analysis (Continued)

REVENUES - ADDITIONS TO PLAN NET ASSETS

The reserves needed to finance retirement and health benefits are accumulated through the collection of employer contributions and through earnings on investments. Contributions and net investment income/(losses) for fiscal year 2003 totaled \$190.5 million.

Total contributions and net investment income increased \$249.3 million from those of fiscal year 2002, due primarily to market conditions and investment earnings. Total contributions and net investment income increased \$32.9 million or 35.9% between fiscal years 2001 and 2002 for the same reasons. Total contributions increased between fiscal years 2002 and 2003 by \$7.9 million or 16.1%. This increase is primarily due to an increase in the contribution rate. Total contributions increased between fiscal years 2001 and 2002 by \$3.1 million or 6.7% primarily due to an increase in the contribution rate. Investment income increased from fiscal year 2002 by \$241.4 million. Investment income increased between fiscal years 2001 and 2002 by \$29.8 million or 21.6%. The Investment Section of this report reviews the results of investment activity for 2003.



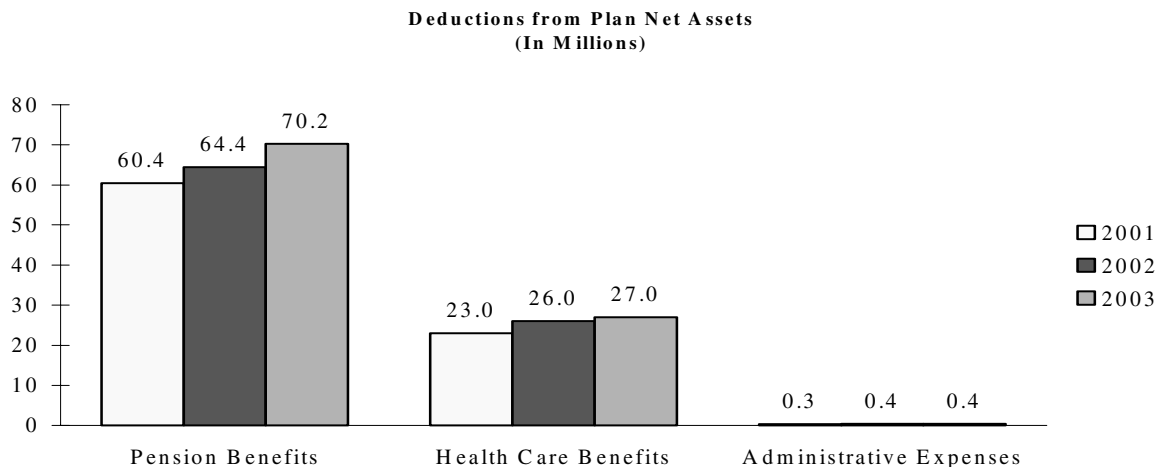
FINANCIAL SECTION

Management's Discussion and Analysis (Continued)

EXPENSES - DEDUCTIONS FROM PLAN NET ASSETS

The primary expenses of the System include the payment of pension benefits to members and beneficiaries, payment for health, dental and vision benefits, refund of contributions to former members, and the cost of administering the System. Total deductions for fiscal year 2003 were \$97.6 million, an increase of 7.5% over fiscal year 2002 expenses.

The growth of health, dental and vision care expenses continued during the year and increased by \$1.0 million or 3.9% from \$26.0 million to \$27.0 million during the fiscal year. This compares to an increase of \$3.0 million or 13.1% from \$23.0 million to \$26.0 million between fiscal years 2001 and 2002. The payment of pension benefits increased by \$5.7 million or 8.9% between fiscal years 2002 and 2003 and by \$4.0 million or 6.6% between fiscal years 2001 and 2002. The increase in pension benefit expenses resulted from an increase in retirees (107) and an increase in benefit payments to retirees, and in fiscal year 2002 the increase in pension benefit expenses resulted from an increase in retirees (80) and an increase in benefit payments to retirees. Administrative expenses increased by \$70,342 or 19.9% between fiscal years 2002 and 2003, primarily due to an increase in professional services during the current year for special actuarial studies. Administrative expenses increased by \$54,692 or 18.3% between fiscal years 2001 and 2002 primarily due to a reallocation of expenses from fiscal year 2000 and an increase in professional services.



Management's Discussion and Analysis (Continued)

RETIREMENT SYSTEM AS A WHOLE

The System's combined net assets have once again experienced an increase following decreases in the previous two years. This increase is a result of a moderate national economic upturn that resulted in investment income earnings. Management believes, and actuarial studies concur, that the System is in a financial position to meet its current obligations. We believe the current financial position has improved, in part, due to a prudent investment program, cost controls, and strategic planning.

CONTACTING SYSTEM FINANCIAL MANAGEMENT

This financial report is designed to provide the Retirement Board, our membership, taxpayers, investors, and creditors with a general overview of the System's finances and to demonstrate the System's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Office of Retirement Services, P.O. Box 30171, Lansing, MI 48909-7671.

FINANCIAL SECTION

Statements of Pension Plan and Postemployment Healthcare Plan Net Assets

As of Fiscal Years Ending September 30, 2003 and 2002

	September 30, 2003			September 30, 2002		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
Assets:						
Cash	\$ 3,978,766	\$ 8,945	\$ 3,987,711	\$ 1,625,869		\$ 1,625,869
Receivables:						
Amounts due						
from employer	2,269,679	\$ 5,102	2,274,781	918,162	\$ 1,031,534	1,949,696
Interest and dividends	2,545,881	5,723	2,551,604	3,461,313		3,461,313
Sale of investments	44,385	100	44,485	148,165		148,165
Total receivables	4,859,945	10,925	4,870,870	4,527,640	1,031,534	5,559,174
Investments:						
Short term investments	41,143,430	92,488	41,235,918	10,176,919		10,176,919
Bonds and notes	179,331,117	403,127	179,734,244	208,233,063		208,233,063
Common and preferred stock	437,937,577	984,462	438,922,039	371,633,423		371,633,423
Real estate and mortgages	88,901,114	199,845	89,100,959	90,991,336		90,991,336
Alternative investments	127,629,100	286,904	127,916,004	131,176,474		131,176,474
International investments	93,917,776	211,122	94,128,898	68,066,066		68,066,066
Collateral on loaned securities	24,838,060	55,835	24,893,895	40,124,269		40,124,269
Total investments	993,698,174	2,233,783	995,931,957	920,401,550	-	920,401,550
Total assets	1,002,536,885	2,253,653	1,004,790,538	926,555,059	1,031,534	927,586,593
Liabilities:						
Warrants outstanding	225,499	507	226,006	222,538		222,538
Accounts payable and other accrued liabilities	441,285	992	442,277	908,486		908,486
Internal Balances			-	(2,920,880)	2,920,880	-
Obligations under securities lending	24,838,060	55,835	24,893,895	40,124,269		40,124,269
Total liabilities	25,504,844	57,334	25,562,178	38,334,413	2,920,880	41,255,293
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits*	\$ 977,032,041	\$ 2,196,319	\$ 979,228,360	\$ 888,220,646	\$ (1,889,346)	\$ 886,331,300

*A schedule of funding progress is presented in the Required Supplementary Information of the Financial Section.

The accompanying notes are an integral part of these financial statements.

FINANCIAL SECTION

Statements of Changes in Pension Plan and Postemployment Healthcare Plan Net Assets

For Fiscal Years Ended September 30, 2003 and 2002

	September 30, 2003			September 30, 2002		
	Pension Plan	Health Plan	Total	Pension Plan	Health Plan	Total
Additions:						
Contributions:						
Member contributions	\$ 78,111	\$ 1,501,196	\$ 1,579,307	\$ 113,114	\$ 1,380,199	\$ 1,493,313
Employer contributions	25,931,762	29,620,331	55,552,093	22,456,469	25,270,639	47,727,108
Total contributions	26,009,873	31,121,527	57,131,400	22,569,583	26,650,838	49,220,421
Investment income (loss):						
Investment income (loss)	135,211,684		135,211,684	(106,273,180)		(106,273,180)
Investment expenses:						
Real estate operating expenses	(30,001)		(30,001)	(11,561)		(11,561)
Other investment expenses	(1,890,905)		(1,890,905)	(1,939,805)		(1,939,805)
Securities lending activities:						
Securities lending income	504,591		504,591	1,043,303		1,043,303
Securities lending expenses	(417,941)		(417,941)	(836,020)		(836,020)
Net investment income (loss)	133,377,428	-	133,377,428	(108,017,263)	-	(108,017,263)
Miscellaneous income	127		127	15		15
Total additions	159,387,428	31,121,527	190,508,955	(85,447,665)	26,650,838	(58,796,827)
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits	70,152,288		70,152,288	64,418,130		64,418,130
Health benefits		25,282,634	25,282,634		24,354,075	24,354,075
Dental/vision benefits		1,753,228	1,753,228		1,675,447	1,675,447
Administrative expenses	423,745		423,745	353,403		353,403
Total deductions	70,576,033	27,035,862	97,611,895	64,771,533	26,029,522	90,801,055
Net Increase (Decrease)	88,811,395	4,085,665	92,897,060	(150,219,198)	621,316	(149,597,882)
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits:						
Beginning of Year	888,220,646	(1,889,346)	886,331,300	1,038,439,844	(2,510,662)	1,035,929,182
End of Year*	\$ 977,032,041	\$ 2,196,319	\$ 979,228,360	\$ 888,220,646	\$ (1,889,346)	\$ 886,331,300

* A schedule of funding progress is presented in the Required Supplementary Information of the Financial Section.
The accompanying notes are an integral part of these financial statements.

FINANCIAL SECTION

Notes to Basic Financial Statements

NOTE 1 - PLAN DESCRIPTION

ORGANIZATION

The Michigan State Police Retirement System (System) is a single employer, state-wide, defined benefit public employee retirement plan governed by the State of Michigan (State), originally created under Public Act 251 of 1935, recodified and currently operating under Public Act 182 of 1986. The System was established by the State to provide retirement, survivor and disability benefits to Michigan State Police. The System is a qualified trust fund under section 401(a) of the Internal Revenue Code.

The System's financial statements are included as a pension trust fund in the combined financial statements of the State.

The System is administered by the Office of Retirement Services within the Michigan Department of Management and Budget. The Department Director appoints the Office Director who serves as Executive Secretary to the System's Board, with whom the general oversight of the System resides. The State Treasurer serves as the investment officer and custodian for the System.

At September 30, 2003, and 2002, the System's membership consisted of the following:

Retirees and beneficiaries currently receiving benefits:	2003	2002
Regular benefits	2,059	1,956
Survivor benefits	369	367
Disability benefits	141	139
Total	2,569	2,462
 Current employees:		
Vested	955	1,058
Non-vested	895	990
Total	1,850	2,048
 Inactive employees entitled to benefits and not yet receiving them	83	14
 Total members	4,502	4,524

Enrollment in the health plan is voluntary. The number of participants is as follows:

Health/Dental/Vision Plan	2003	2002
Eligible participants:	2,569	2,462
 Participants receiving benefits:		
Health	2,238	2,125
Dental	2,279	2,172
Vision	2,281	2,175

FINANCIAL SECTION

Notes to Basic Financial Statements (Continued)

BENEFIT PROVISIONS

Introduction

Benefit provisions of the defined benefit pension plan are established by State statute, which may be amended. Public Act 182 of 1986, Michigan State Police Retirement Act, as amended, establishes eligibility and benefit provisions for the defined benefit pension plan. Retirement benefits are determined by final average compensation. Members are eligible to receive a monthly benefit when they meet certain age and service requirements. The System also provides duty disability, non-duty disability, and survivor benefits.

A member who leaves Michigan State Police employment may request a refund of his or her member contribution account. (The System is currently non-contributory.) A refund cancels a former member's rights to future benefits and there is no provision for repaying the refund of contributions to restore the service represented by the refund.

Regular Retirement

The retirement benefit is available if a member retires after 25 years of credited service (employment). The retirement benefit equals 60% of a member's final average compensation and is payable monthly over the lifetime of a member. Final average compensation is the average annual salary for a member's last two years of service with the Department of State Police.

Deferred Retirement

Any member with 10 or more years of credited service who terminates employment but has not reached the age of 50 is a deferred member and is entitled to receive a monthly allowance upon reaching age 50, provided the member's accumulated contributions have not been refunded. The deferred benefit is equal to two percent of the final average compensation times the years and partial years of service credit.

Non-Duty Disability Benefit

A member with 10 or more years of credited service who becomes totally and permanently disabled not due to performing duties as an employee of the Michigan State Police is eligible for a non-duty disability pension. The non-duty disability benefit is 2.4% of the final average compensation times years and partial years of credited service (but not more than 25 years).

Duty Disability Benefit

A member who becomes totally and permanently disabled from performing duties as a Michigan State Police Officer is eligible for a duty disability pension. The amount, payable monthly, is equal to 60% of the final average compensation.

Survivor Benefit

Upon the death of a member who completed at least 10 years of service, the surviving spouse receives a benefit based on 2.4% of the final average compensation for each year and partial years of credited service. If there is no spouse, surviving children are entitled to equally share the benefit until age 18. If death occurs in the line of duty, the surviving spouse receives a benefit of 60% of the final average compensation. Children receive \$100 each month until age 18. A \$1,500 funeral expense is also authorized by State statute.

Effective October 1, 1996, the monthly pension paid to beneficiaries was increased 10% if certain requirements were met. This was a one-time increase.

Each October 1, the benefit increases 2% (not to exceed \$500). This non-compounding increase is paid to beneficiaries who have been receiving benefits for 12 months.

FINANCIAL SECTION

Notes to Basic Financial Statements (Continued)

Post Retirement Adjustments

Effective October 1, 1996, the monthly pension was increased 10% if certain requirements were met. This was a one time increase.

Each October 1, the benefits of all pension recipients increase 2% (not to exceed \$500). This non-compounding increase is paid to persons who have been retired 12 months.

Contributions

Member Contributions — Members currently participate on a noncontributory basis. Under certain circumstances, members may contribute to the System for the purchase of creditable service, such as military, maternity or paternity leave, Peace Corps or VISTA service. If a member terminates employment before a retirement benefit is payable, the member's contribution and interest on deposit are refunded. If the member dies before being vested, the member's contribution and interest are refunded to the designated beneficiaries.

Employer Contributions — The statute requires that the employer contribute to finance the benefits of plan members. These employer contributions are determined annually by the System's actuary and are based upon level-percent-of-payroll funding principles so that the contribution rates do not have to increase over time. A chart showing the employer contribution rates is included on the Schedule of Revenues by Source in the Statistical Section.

Other Post Employment Benefits

Under the Michigan State Police Retirement Act, all retirees have the option of continuing health, dental, and vision coverage. Retirees with this coverage contribute 5%, 10% and 10% of the monthly premium amount for the health, dental, and vision coverage, respectively. The State funds 95% of the health and 90% of the dental and vision insurance. The employer payroll contribution rate for health was 21.2% and 21.2% for 2003 and 2002, respectively.

Retirees are provided with life insurance coverage equal to 25% of the active life insurance coverage, \$1,000 for spouse and \$1,000 for each dependent under age 23. Premiums are fully paid by the State.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting and Presentation

Financial statements are prepared using the accrual basis of accounting. Contributions from the State are recognized as revenue when due and payable. Benefits and refunds are recognized when due and payable in accordance with the terms of the System.

Reserves

Public Act 182 of 1986, as amended, created the Reserve for Employee Contributions, Reserve for Retired Benefit Payments, Reserve for Employer Contributions, Reserve for Undistributed Investment Income, and Reserve for Health Benefits and Dental and Vision Benefits. The financial transactions of the System are recorded in these accounts as required by Public Act 182 of 1986, as amended.

Reserve for Employee Contributions — Members do not contribute to this fund except to purchase eligible service credit. This fund represents active member contributions and interest less amounts transferred to the Pension Reserve for regular and disability retirement, amounts refunded to terminated members, and unclaimed amounts transferred to the income account. At September 30, 2003, and 2002, the balance in this account was \$239.8 thousand and \$328.6 thousand, respectively.

FINANCIAL SECTION

Notes to Basic Financial Statements (Continued)

Reserve for Employer Contributions — All employer contributions are credited to this reserve. Interest from the Reserve for Undistributed Investment Income is credited annually. Amounts are transferred annually from this reserve to the Reserve for Retired Benefit Payments to fund that reserve. At September 30, 2003, and 2002, the balance in this account was \$164.9 million and \$177.6 million, respectively.

Reserve for Retired Benefit Payments — This represents the reserves for payment of future retirement benefits to persons already on the retirement rolls. At retirement, a member's accumulated contributions plus interest are transferred into this reserve from the Reserve for Employee Contributions. Monthly benefits, which are paid to the retirees, reduce this reserve. At the end of each fiscal year, an amount is transferred from the Reserve for Employer Contributions to bring the reserve into balance with the actuarial present value of retirement allowances. At September 30, 2003, and 2002, the balance in this account was \$746.5 million and \$707.1 million, respectively.

Reserve for Undistributed Investment Income — The reserve is credited with all investment earnings and changes in fair value of assets. Interest is transferred annually to the other reserves. Administrative expenses are paid from this reserve account. The legislature appropriates the funds necessary to defray and cover the administration of the plan. At September 30, 2003, and 2002, the balance of this reserve was \$65.4 million and \$3.2 million, respectively.

Reserve for Health Related Benefits — This reserve is credited with employer contributions for retirees' health benefits. From this reserve, the System pays 95% of the premiums for hospitalization and medical coverage insurance and 90% of the monthly premium for dental and vision coverage insurance. At September 30, 2003, and 2002, the balance in this account was \$2.2 million and a negative \$1.9 million, respectively.

Internal Balances — At September 30, 2002, the System reported a deficit in the Health Plan. As a result, amounts reported in the Statement of Plan Net Assets have been recognized and eliminated using the internal balances process described in GASB Statement No. 34. While this concept was devised to eliminate the "grossing-up" effect within the governmental and business-type activities columns of the primary government, because of the relationship of the Health Plan to the Pension Plan, the concept was deemed to be appropriate for System presentation.

Reporting Entity

The System is a pension trust fund of the State. As such, the System is considered part of the State and is included in the State's Comprehensive Annual Financial Report as a pension trust fund. The System and its Board are not financially accountable for any other entities or other organizations. Accordingly, the System is the only entity included in this financial report.

Benefit Protection

Public Act 100 of 2002 was passed by the Michigan Legislature to protect pension benefits of public employees from alienation (being transferred). Alienation is attachment, garnishment, levy, execution, bankruptcy or other legal process except for divorce orders or eligible domestic relation orders. The statutes governing the System contained an "anti-alienation" clause to provide for this protection; however, many smaller public pension systems did not have the benefit of this protection. Therefore, Public Act 100 of 2002 was passed to establish legal protection of pension assets that encompasses all public employees.

Fair Value of Investments

Plan investments are reported at fair value, except for short-term investments. Short-term investments are carried at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Corporate bonds not traded on a national or international exchange are based on equivalent values of comparable securities with similar yield and risk. Real estate debt is valued on the basis of future principal and interest payments and is discounted at prevailing interest rates for similar instruments. The fair value of real estate investments is based on independent appraisals. Other investments that do not have an established market are recorded at estimated fair value.

FINANCIAL SECTION

Notes to Basic Financial Statements (Continued)

Investment Income

Dividend income is recognized based on the ex-dividend date and interest income is recognized on the accrual basis as earned. Fair value changes are recorded as investment income or loss. Purchases and sales of investments are recorded as of the trade date (the date upon which the transaction is initiated), except for purchase and sale of mortgages, real estate, and alternative investments, which are recorded as of the settlement date (the date upon which the transaction is ultimately completed). The effect of recording such transactions as of the settlement date does not materially affect the financial statements.

Costs of Administering the System

Each year a restricted general fund appropriation is requested to fund the on-going business operations of the System. These administrative costs are ultimately funded by the System through the regular transfer of funds from the System to the general fund appropriation based on either a direct cost or allocation basis depending on the nature of the expense.

Property and Equipment

Office space is leased from the State on a year to year basis. Office equipment is capitalized if the value exceeds \$5,000. These assets are recorded at cost and are reported net of depreciation in the Statement of Pension Plan and Postemployment Healthcare Plan Net Assets. Such assets are depreciated on a straight-line basis over 10 years. The System does not have equipment that falls within these parameters.

Related Party Transactions

Leases and Services — The System leases operating space and purchases certain administrative, data processing, legal and investment services from the State. The space and services are not otherwise available by competitive bid. The following summarizes costs incurred by the System for such services.

	<u>2003</u>	<u>2002</u>
Building Rentals	\$ 6,546	\$ 20,401
Technological Support	73,575	84,556
Attorney General	14,903	8,716
Investment Services	215,131	226,368
Personnel Services	70,394	63,740

Commitment and Contingency — The State has signed a contract with a vendor for technological support through 2004. As of September 30, 2003, the System's portion of this commitment remaining is approximately \$115,000.

Cash — On September 30, 2003, and 2002, the System had \$4.0 million and \$1.6 million, respectively in a common cash investment pool maintained for various State operating funds. The participating funds in the common cash pool earn interest at various rates depending upon prevailing short-term interest rates. Earnings from these activities amounted to \$143,360 and \$60,875 for the years ended September 30, 2003, and 2002, respectively.

Reclassification of Prior Year Amounts

Certain prior year amounts have been reclassified to conform with the current year presentation.

FINANCIAL SECTION

Notes to Basic Financial Statements (Continued)

NOTE 3 - CONTRIBUTIONS

Members currently participate in the System on a noncontributory basis. Under certain circumstances, members may contribute to the System for the purchase of creditable service, such as military service or maternity leave. The State is required by Public Act 182 of 1986, as amended, to contribute amounts necessary to finance the benefits of its employees. Contribution provisions are specified by State statute and may be amended only by action of the State Legislature.

Periodic employer contributions to the System are determined on an actuarial basis using the entry age normal actuarial cost method. Under this method, the actuarial present value of the projected benefits of each individual included in the actuarial valuation is allocated on a level basis over the service of the individual between entry age and assumed exit age. The portion of this cost allocated to the current valuation year is called the normal cost. The remainder is called the actuarial accrued liability. Normal cost is funded on a current basis. The unfunded (overfunded) actuarial accrued liability is amortized over a 34-year period for the 2002 fiscal year and a 33-year period for the 2003 fiscal year.

Actual employer contributions for retirement benefits were \$25.9 million and \$22.5 million for fiscal years 2003 and 2002, respectively, representing 18.1% of annual covered payroll for the year ended September 30, 2002. The fiscal year 2003 annual covered payroll is not yet available. Required employer contributions for pensions included:

1. \$27.0 million and \$25.9 million for fiscal years 2003 and 2002, respectively, for the normal cost of pensions representing 20.8% of annual covered payroll for fiscal year 2002.
2. (\$0.3) million and (\$3.9) million for fiscal years 2003 and 2002, respectively, for amortization of overfunded actuarial accrued liability representing (3.1%) of annual covered payroll for fiscal year 2002.

NOTE 4 - INVESTMENTS

Risks and Uncertainties

The System's investments are exposed to various risks, such as interest rate, market, credit, and other. Due to these various risks, it is at least reasonably possible that changes in market values will occur in the near term and that such changes could materially affect the System and the amount reported in the statement of net assets as available for benefits.

Investment Authority

Under Public Act 380 of 1965, as amended, the authority for the purchase and the sale of investments resides with the State Treasurer. Investments are made subject to the Michigan Public Pension Investment Act, Public Act 314 of 1965, as amended. The Michigan Public Pension Investment Act authorizes, with certain restrictions, the investment of pension fund assets in stock, corporate and government bonds and notes, mortgages, real estate, and certain short-term and alternative investments. Investments must be made for the exclusive purposes of providing benefits to active members, retired members and beneficiaries, and for defraying the expenses of investing the assets.

Under Public Act 314 of 1965, as amended, the State Treasurer may invest up to 5% of the System's assets in small businesses having more than one-half of assets or employees in Michigan as described in section 20(a) of the act and up to 20% of the System's assets in investments not otherwise qualified under the act as described in section 20(d). Alternative investments include limited partnerships and distributions from these partnerships in the form of bonds, preferred stock, common stock and direct investments.

Derivatives

The State Treasurer does not employ the use of derivatives in the investment of the Common Cash or the investment of trust funds other than the pension trust funds.

FINANCIAL SECTION

Notes to Basic Financial Statements (Continued)

Derivatives are used in managing pension trust fund portfolios, but uses do not include speculation or leverage of investments. Less than 10% of the total pension trust fund's portfolio has been invested from time to time in futures contracts, collateralized mortgages and swap agreements. State investment statutes limit total derivative exposure to 15% of a fund's total asset value, and restrict uses to replication of returns and hedging of assets. Swap agreements represent the largest category of derivatives used, and they represented 9.0% of market value of total assets on September 30, 2003, and 7.7% of market value of total assets on September 30, 2002.

To diversify the pension fund's portfolio, the State Treasurer has entered into swap agreements with investment grade counterparties, which are tied to stock market indices in the United States and twenty-two foreign countries. The notional amounts of the swap agreements at September 30, 2003, and 2002, were \$95.7 million and \$96.3 million, respectively. Approximately one half of the notional amount is hedged against foreign currency fluctuations. The swap agreements provide that the System will pay quarterly over the term of the swap agreements, interest indexed to the three month London InterBank Offer Rate (LIBOR), adjusted for an interest rate spread on the notional amount stated in the agreements. At the maturity of the swap agreements, the pension fund will either receive the increase in the value of the international equity indices from the level at the inception of the agreements, or pay the decrease in the value of the indices. Swap agreement maturity dates range from October 2003 to September 2006. U.S. domestic LIBOR based floating rate notes were purchased in the open market to correspond with the notional amount of the swap agreements. The State Treasurer maintains custody and control of these notes.

The value of these synthetic equity structures is a combination of the value of the swap agreements and the value of the notes. The book value represents the cost of the notes. The current value represents the current value of the notes and the change in value of the underlying indices from the inception of the swap agreements. The current value is used as a representation of the fair value based on the intention to hold all swap agreements until maturity. Since the inception of the international equity investment program, over \$14.9 million of gains on equity exposure and excess interest received have been realized on matured swap agreements. The unrealized loss of \$7.6 million at September 30, 2003, primarily reflects the decline in international stock indices and changes in currency exchange rates. Many of the international indices peaked in 1999 and 2000, and the combined swap structure realizes gains and losses on a rolling three year basis.

The respective September 30, 2003, and 2002 derivative values are as follows:

	<u>Notional Value</u>	<u>Current Value</u>
9/30/2003 (dollars in millions)	\$ 95.7	\$ 88.1
9/30/2002 (dollars in millions)	96.3	65.9

The amounts shown above reflect both the total international swap exposure and the smaller derivative exposure to the S&P 600.

Investments Exceeding 5% of Plan Net Assets

The System did not hold an individual investment (other than U.S. Government securities) that exceeded 5% of net assets available for benefits at September 30, 2003, or 2002.

Securities Lending

State statutes allow the System to participate in securities lending transactions, and the System has, via a Securities Lending Authorization Agreement, authorized the agent bank to lend its securities to broker-dealers and banks pursuant to a form of loan agreement.

FINANCIAL SECTION

Notes to Basic Financial Statements (Continued)

During the fiscal year, the agent bank lent, at the direction of the System, the System's securities and received cash (United States and foreign currency), securities issued or guaranteed by the United States government, sovereign debt rated A or better, convertible bonds and irrevocable bank letters of credit as collateral. The agent bank did not have the ability to pledge or sell collateral securities delivered absent a borrower default. Borrowers were required to deliver collateral for each loan equal to (i) at least 102% of the market value of the loaned securities in the case of loaned securities denominated in the United States dollars or whose primary trading market was located in the United States or sovereign debt issued by foreign governments or (ii) 105% of the market value of the loaned securities in the case of loaned securities not denominated in the United States dollars or whose primary trading market was not located in the United States.

The System did not impose any restrictions during the fiscal year on the amount of the loans that the agent bank made on its behalf. There were no failures by any borrowers to return loaned securities or pay distributions thereon during the fiscal year. Moreover, there were no losses during the fiscal year resulting from a default of the borrowers or the agent bank.

During the fiscal year, the System and the borrowers maintained the right to terminate all securities lending transactions on demand. The cash collateral received on each loan was invested together with the cash collateral or other qualified tax-exempt plan lenders, in a collective investment pool. As of September 30, 2003, such investment pool had an average duration of 81 days and an average weighted maturity of 420 days. Because the loans were terminable at will, their duration did not generally match the duration of the investments made with cash collateral. On September 30, 2003, the System had no credit risk exposure to borrowers. The cash collateral, non-cash collateral, and market value of securities on loan for the System as of September 30, 2003, were \$24,893,895, \$741,779 and \$24,976,132, respectively.

Gross income from security lending for the fiscal year was \$504,591. Expenses associated with this income amounted to \$388,308 for the borrower's rebate and \$29,633 for fees paid to the agent.

Categories of Investment Risk

Investments made by the fund are summarized on the following page. The investments that are represented by specific identifiable investment securities are classified as to credit risk in three categories.

Category 1 includes investments that are insured, registered, or held by the System or its agent in the System's name. Category 3 includes uninsured and unregistered investments that are held by the counterparty, its trust department, or agent, but not in the System's name.

At September 30, 2003, all investments of the System were classified as Category 1 or Category 3, except for certain investments that were not categorized.

The table on the following page summarizes the investments at market value:

FINANCIAL SECTION

Notes to Basic Financial Statements (Continued)

<u>Category 1</u>	<u>2003</u>	<u>2002</u>
Prime Commercial Paper	\$ 41,235,918	\$ 10,176,919
Government Securities	92,922,250	94,650,499
Corporate Bonds & Notes	72,823,698	86,059,348
Common and Preferred Stock	427,514,005	358,126,449
Alternative Investments ²	1,047,846	1,682,835
International Investments ³	87,160,663	65,928,340
Total Category 1	\$ 722,704,380	\$ 616,624,390
<u>Category 3</u>		
Government Securities	\$ 1,173,916	\$ 2,300,000
<u>Non-Categorized</u>		
Real Estate and Mortgages ¹	\$ 89,100,959	\$ 90,991,336
Alternative Investments ²	126,860,971	129,493,639
International Investments ³	6,221,704	2,137,726
Cash Collateral	24,893,895	40,124,269
Securities on Loan:		
Government Securities	10,612,962	23,059,150
Corporate Bonds & Notes	2,201,418	2,164,066
Alternative Investments ²	7,187	
International Investments ³	746,531	
Common Stock	11,408,034	13,506,974
Total Non-Categorized	\$ 272,053,661	\$ 301,477,160
Grand Total	\$ 995,931,957	\$ 920,401,550

¹ Non-Categorized Real Estate consists of investments in real estate through various legal entities.

² In Category 1, the Alternative Investments are small-cap equities. Non-Categorized Alternative Investments consist of limited partnerships and securities on loan.

³ In Category 1 the International Investments consist of International Swap Derivatives and ADRs (American Depositary Receipts). The Non-Categorized International Investments consist of Primary Market and Extended Market Index Funds and securities on loan.

NOTE 5 - COMMITMENTS AND CONTINGENCIES

Under the Administrative Procedures Act, members may appeal a decision by the Board. Once the administrative procedure has been exhausted, the decision may be appealed in Michigan's court system. Various cases that have exhausted the administrative procedures have been appealed in the court system. These cases are in the normal course of business and the System does not anticipate any material loss as a result of the contingent liabilities.

FINANCIAL SECTION

Required Supplementary Information

Schedule of Funding Progress

Expressing the net assets available for benefits as a percentage of the actuarial accrued liability provides one indication of the System's funding status. Analysis of this percentage over time indicates whether the System is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the System. Trends in unfunded actuarial accrued liability and annual covered payroll are both affected by inflation. Expressing the unfunded or overfunded actuarial accrued liability as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the System.

Retirement Benefits (\$ in Millions)

Valuation Date Sept 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded (Overfunded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
1993	\$ 526.2	\$ 680.5	\$ 154.3	77.3 %	\$ 86.8	177.8 %
1993 ⁽¹⁾	530.9	680.5	149.6	78.0	86.8	172.3
1994	566.5	709.3	142.8	79.9	88.6	161.1
1994 ⁽²⁾	566.5	711.8	145.3	79.6	88.6	164.0
1995	622.6	798.8	176.2	77.9	104.5	168.6
1996	697.9	823.5	125.5	84.8	106.8	117.5
1997	787.2	880.3	93.1	89.4	110.1	84.6
1997 ⁽¹⁾	928.7	880.3	(48.4)	105.5	110.1	(44.0)
1997 ⁽³⁾	928.7	876.8	(52.0)	105.9	110.1	(47.2)
1998	974.4	943.7	(30.6)	103.2	108.2	(28.3)
1998 ⁽²⁾	974.4	962.5	(11.9)	101.2	108.2	(11.0)
1999	1,036.8	1,006.5	(30.3)	103.0	116.9	(25.9)
2000	1,113.1	1,040.7	(72.4)	107.0	116.6	(62.1)
2001	1,148.6	1,073.6	(75.0)	107.0	118.8	(63.1)
2002	1,141.3	1,135.7	(5.6)	100.5	124.4	(4.5)

(1) Change in asset valuation method.

(2) Assumption change.

(3) Change in inflation.

FINANCIAL SECTION

Required Supplementary Information (Continued)

Schedule of Employer Contributions

Fiscal Year Ended Sept. 30	Actuarial Required Contribution (ARC)	Actual Contribution	Percentage Contributed
1994	\$ 23,768,031	\$ 23,360,943	98.3 %
1995	27,916,677	25,047,023	89.7
1996	35,149,438	35,994,833	102.4
1997	30,821,696	35,142,572	114.0
1998	20,257,237	20,003,807	98.7
1999	22,733,833	21,609,520	95.1
2000	24,266,567	22,107,292	91.1
2001	21,989,439	24,064,039	109.4
2002	22,041,827	22,456,469	101.9
2003	26,683,625	25,931,762	97.2

FINANCIAL SECTION

Notes to Required Supplementary Information

NOTE A - DESCRIPTION

Ten year historical trend information designed to provide information about the System's progress made in accumulating sufficient assets to pay benefits when due is presented in the preceding schedules. Other ten year historical trend information related to the System is presented in the Statistical and Actuarial Sections of the report. This information is presented to enable the reader to assess the progress made by the System in accumulating sufficient assets to pay pension benefits as they become due.

The comparability of trend information is affected by changes in actuarial assumptions, benefit provisions, actuarial funding methods, accounting policies, and other changes. Those changes usually affect trends in contribution requirements and in ratios that use the pension benefit obligation as a factor.

The Schedule of Funding Progress and Schedule of Employer Contributions are reported as historical trend information. The Schedule of Funding Progress is presented to measure the progress being made to accumulate sufficient assets to pay benefits when due. The Schedule of Employer Contributions is presented to show the responsibility of the Employer in meeting the actuarial requirements to maintain the System on a sound financial basis.

NOTE B - SUMMARY OF ACTUARIAL ASSUMPTIONS

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	9/30/2002
Actuarial Cost Method	Entry Age, Normal
Amortization Method	Level Percent of Payroll, Closed
Remaining Amortization Period	34 years
Asset Valuation Method	5-Year Smoothed Market
Actuarial Assumptions:	
Inflation Rate	4%
Investment Rate of Return	8%
Projected Salary Increases	4.7% - 84.0%
Cost-of-Living Adjustments	2% Annual Non-Compounded with Maximum Annual Increase of \$500 for those eligible

FINANCIAL SECTION

Supporting Schedules

Pension Plan Administrative Expenses For the Years Ended September 30, 2003 and 2002

	2003	2002
Personnel Services:		
Staff Salaries	\$ 52,056	\$ 45,066
Retirement and Social Security	10,907	10,167
Other Fringe Benefits	7,431	8,507
Total	70,394	63,740
Professional Services:		
Actuarial	122,775	64,102
Attorney General	14,903	8,716
Audit	34,793	32,952
Consulting	21,913	10,890
Medical	16,348	401
Total	210,732	117,061
Building Equipment		
Building Rentals	6,546	20,401
Equipment Purchase, Maintenance, and Rentals	1,870	2,773
Total	8,416	23,174
Miscellaneous:		
Travel and Board Meetings	791	608
Office Supplies	607	861
Postage, Telephone and Other	53,438	58,723
Printing	5,792	4,680
Technological Support	73,575	84,556
Total	134,203	149,428
Total Administrative Expenses	\$ 423,745	\$ 353,403

Supporting Schedules (Continued)

Schedule of Investment Expenses

	<u>2003</u>	<u>2002</u>
Real Estate Operating Expenses	\$ 30,001	\$ 836,020
Securities Lending Expenses	417,941	11,561
Other Investment Expenses*	<u>1,890,905</u>	<u>1,939,805</u>
Total Investment Expenses	<u><u>\$ 2,338,847</u></u>	<u><u>\$ 2,787,386</u></u>

* See Investment Section for fees paid to investment professionals.

Schedule of Payments to Consultants

	<u>2003</u>	<u>2002</u>
Independent Auditors	\$ 34,793	\$ 32,952
Consulting	21,913	10,890
Medical	16,348	401
Attorney General	14,903	8,716
Actuary	<u>122,775</u>	<u>64,102</u>
Total Payment to Consultants	<u><u>\$ 210,732</u></u>	<u><u>\$ 117,061</u></u>

FINANCIAL SECTION

Supporting Schedules (Continued)

Detail of Changes in Plan Net Assets (Pension and Postemployment Healthcare Benefits) For the Year Ended September 30, 2003

	Employee Contributions	Employer Contributions	Retired Benefit Payments*	Undistributed Investment Income	Health Related Benefits	Total
Additions:						
Contributions:						
Member contributions	\$ 78,111				\$ 1,501,196	\$ 1,579,307
Employer contributions		\$ 25,931,762			29,620,331	55,552,093
Total Contributions	78,111	25,931,762	-	-	31,121,527	57,131,400
Investment income (loss):						
Investment income (loss)				\$ 135,211,684		135,211,684
Investment expenses:						
Real estate operating expenses				(30,001)		(30,001)
Other investment expenses				(1,890,905)		(1,890,905)
Securities lending activities:						
Securities lending income				504,591		504,591
Securities lending expenses				(417,941)		(417,941)
Net investment income (loss)	-	-	-	133,377,428	-	133,377,428
Miscellaneous income				127		127
Total additions	78,111	25,931,762	-	133,377,555	31,121,527	190,508,955
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits			\$ 70,152,288			70,152,288
Health benefits					25,282,634	25,282,634
Dental/vision benefits					1,753,228	1,753,228
Refunds of member contributions						-
Administrative expenses				423,745		423,745
Total deductions	-	-	70,152,288	423,745	27,035,862	97,611,895
Net Increase (Decrease)	78,111	25,931,762	(70,152,288)	132,953,810	4,085,665	92,897,060
Other Changes in Net Assets:						
Interest allocation	6,371	14,210,004	56,564,066	(70,780,441)		-
Transfers upon retirement	(173,237)	(52,878,392)	53,051,629			-
Transfers of employer shares						-
Total other changes in net assets	(166,866)	(38,668,388)	109,615,695	(70,780,441)	-	-
Net Increase (Decrease) After Other Changes	(88,755)	(12,736,626)	39,463,407	62,173,369	4,085,665	92,897,060
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits:						
Beginning of Year	328,556	177,625,054	707,050,829	3,216,207	(1,889,346)	886,331,300
End of Year	\$ 239,801	\$ 164,888,428	\$ 746,514,236	\$ 65,389,576	\$ 2,196,319	\$ 979,228,360

*Casualty Reserve is included.

FINANCIAL SECTION

Supporting Schedules (Continued)

Detail of Changes in Plan Net Assets (Pension and Postemployment Healthcare Benefits) For the Year Ended September 30, 2002

	Employee Contributions	Employer Contributions	Retired Benefit Payments*	Undistributed Investment Income	Health Related Benefits	Total
Additions:						
Contributions:						
Member contributions	\$ 113,114				\$ 1,380,199	\$ 1,493,313
Employer contributions		\$ 22,456,469			25,270,639	47,727,108
Total Contributions	113,114	22,456,469	-	-	26,650,838	49,220,421
Investment income (loss):						
Investment income (loss)				\$ (106,273,180)		(106,273,180)
Investment expenses:						
Real estate operating expenses				(11,561)		(11,561)
Other investment expenses				(1,939,805)		(1,939,805)
Securities lending activities:						
Securities lending income				1,043,303		1,043,303
Securities lending expenses				(836,020)		(836,020)
Net investment income (loss)	-	-	-	(108,017,263)	-	(108,017,263)
Miscellaneous income				15		15
Total additions	113,114	22,456,469	-	(108,017,248)	26,650,838	(58,796,827)
Deductions:						
Benefits paid to plan members and beneficiaries:						
Retirement benefits			\$ 64,418,130			64,418,130
Health benefits					24,354,075	24,354,075
Dental/vision benefits					1,675,447	1,675,447
Refunds of member contributions						-
Administrative expenses				353,403		353,403
Total deductions	-	-	64,418,130	353,403	26,029,522	90,801,055
Net Increase (Decrease)	113,114	22,456,469	(64,418,130)	(108,370,651)	621,316	(149,597,882)
Other Changes in Net Assets:						
Interest allocation	11,739	14,567,398	54,060,238	(68,639,375)		-
Transfers upon retirement	(164,455)		164,455			-
Transfers of employer shares		(41,491,285)	41,491,285			-
Total other changes in net assets	(152,716)	(26,923,887)	95,715,978	(68,639,375)	-	-
Net Increase (Decrease) After Other Changes	(39,602)	(4,467,418)	31,297,848	(177,010,026)	621,316	(149,597,882)
Net Assets (Liabilities) Held in Trust for Pension and Health Benefits:						
Beginning of Year	368,158	182,092,472	675,752,981	180,226,233	(2,510,662)	1,035,929,182
End of Year	\$ 328,556	\$ 177,625,054	\$ 707,050,829	\$ 3,216,207	\$ (1,889,346)	\$ 886,331,300

*Casualty Reserve is included.

INVESTMENT SECTION

Prepared by Michigan Department of Treasury, Bureau of Investments

Jacqueline M. Johnson, Director

Report on Investment Activity
Asset Allocation
Investment Results
List of Largest Stock Holdings
List of Largest Bond Holdings
Schedule of Investment Fees
Schedule of Investment Commissions
Investment Summary

INVESTMENT SECTION

Report on Investment Activity

INTRODUCTION

The State Treasurer reports quarterly the investment activity to the Investment Advisory Committee (Committee), which reviews the investments, goals and objectives of the retirement funds and may submit recommendations regarding them to the State Treasurer. The Committee may also, by a majority vote, direct the State Treasurer to dispose of any holdings that, in the Committee's judgment, are not suitable for the funds involved, and may, by unanimous vote, direct the State Treasurer to make specific investments.

The Investment Advisory Committee was created by Act 380 of the Public Acts of 1965. The three public members of the five-member Committee are appointed by the Governor, with the advice and consent of the Senate, for three-year terms. The Director of the Department of Consumer and Industry Services and the Director of the Department of Management and Budget are ex-officio members. The members of the Committee are as follows: James B. Henry, PhD (public member), Robert E. Swaney, CFA (public member), David G. Sowerby, CFA (public member), David Hollister (ex-officio member), and Mitch Irwin (ex-officio member). The public members serve without pay, but are paid actual and necessary travel and other expenses.

INVESTMENT POLICY & GOAL

The primary function of the System is to provide retirement, survivor and disability benefits to its members. The State Treasurer is the sole investment fiduciary and custodian of the System's investments pursuant to State law. The primary investment objective is to maximize the rate of return on the total investment portfolio, consistent with a high degree of prudence and sufficient diversity to eliminate inordinate risks and to meet the actuarial assumption for the investment rate of return, at a reasonable cost achieved by cultivating a motivated team of dedicated professionals. The goals of the fund are:

1. Assure the availability of sufficient assets to pay benefits.
2. Maintain sufficient diversification to avoid large losses and preserve capital.
3. Achieve the optimal rate of return possible within prudent levels of risk and liquidity.
4. Meet or exceed the actuarial assumption over the long term.
5. Perform in the top half of the CRA RogersCasey public plan universe over the long term.
6. Exceed individual asset class benchmarks over the long term.
7. Operate in a cost-effective manner relative to peers.

The strategy for achieving these goals is carried out by investing the assets of the System according to a five-year asset allocation model. The System currently has six different asset classes, which provides for a well-diversified portfolio.

Asset Allocation **(Excludes Collateral on Loaned Securities)**

Investment Category	As of 9/30/03		Five-Year
	Security Type	Strategy	Target %
Domestic Equity	45.1%	46.2%	45.0%
International Equities-Passive	9.7%	9.7%	9.0%
Fixed Income	18.4%	19.4%	21.0%
Real Estate and Mortgages	9.1%	9.2%	10.0%
Alternative Investments	13.1%	13.3%	12.0%
Short Term Investments	4.6%	2.2%	3.0%
TOTAL	100.0%	100.0%	100.0%

* The Strategy column reflects the investment strategies and includes allocated short term, which is directly comparable to the Five-Year Target.

INVESTMENT SECTION

Report on Investment Activity (Continued)

STATE LAW

Pursuant to State Law (Section 91 of Act No. 380 of the Public Acts of 1965, as amended), the State Treasurer, State of Michigan, is the investment fiduciary for the following four State sponsored retirement systems: Michigan Public School Employees' Retirement System, Michigan State Employees' Retirement System, Michigan State Police Retirement System, and Michigan Judges' Retirement System.

Act No. 314 of the Public Acts of 1965, as amended, authorizes the investment of assets of public employee retirement systems or plans created and established by the state or any political subdivision.

PROXY VOTING POLICY

The System's Proxy Voting Policy sets forth directives on the following issues: Board of Directors, corporate governance, social issues, corporate restructurings and defenses. All proxies are reviewed and voted in accordance with the above-mentioned items.

INVESTMENT RESULTS

Total Portfolio Result

For the fiscal year ended September 30, 2003, the total fund's rate of return was 14.8% as compiled by CRA RogersCasey. Annualized rates of return for the three-year period ending September 30, 2003, were -3.1%; for the five-year period were 3.8%; and for the ten-year period were 8.3%.

Returns were calculated using a time-weighted rate of return based on the market rate of return in accordance with standards of the Association for Investment Management and Research (AIMR), unless a modification is described in the discussion of the reported return.

The solid returns were the result of strong performance by our equity portfolios. At the end of fiscal year 2002 and the first quarter of fiscal year 2003, investment staff increased the fund's weightings in depressed equity markets. This allowed the fund to benefit from the significant recovery experienced in equity markets as the year unfolded.

The U.S. economy gathered momentum in fiscal year 2003, except for the March quarter, which was buffeted by the headwinds of severe weather, the threat of war, high energy prices, and SARS. Growth resumed in the June quarter when weather patterns normalized, Baghdad fell quickly, energy prices stabilized, and SARS appeared contained. The economy was supported by the American consumer who took advantage of rising home values and very low interest rates. Corporate earnings rebounded at a double-digit rate, boosted by relentless cost cutting.

The Federal Reserve provided stimulus by lowering interest rates in November 2002 and again in June 2003, taking the Fed Funds rate to 1.00%, a level not seen since the 1950s. Inflation, as measured by the CPI, remained low at an annualized rate of 2.3%.

For the fiscal year, the Dow Jones Industrial provided a total return of 25.1%, while the broader S&P 500 returned 24.4%. The Lehman Brothers U.S. Aggregate Bond Index appreciated 6.5%.

The fund is well-positioned to benefit from continued economic recovery. It remains well-diversified both across and within asset classes.

Domestic Stocks - Active

The objective of actively managed domestic stock investments is long-term capital appreciation by investing in publicly traded stocks of primarily U.S.-based companies. Monies are invested in a portfolio of large company Value stocks, large company Growth stocks, and small company Growth stocks. Since historical rates of return for value and growth strategies have been negatively correlated, this allows for further diversification and focused selection of investments.

INVESTMENT SECTION

Report on Investment Activity (Continued)

Value investing derives its returns from the market's tendency to periodically undershoot a stock's fair value and then eventually correct to fair value. Growth stock returns accrue from longer-term broad themes from which companies evolve that will grow faster than the economy. Both portfolios are diversified among various securities and industries.

The U.S. economy slumped early in fiscal year 2003 as a dockworker's strike in Los Angeles, rising energy prices and the prospects of war in Iraq weighed on both consumer and business spending. The weakness carried into the new calendar year as concerns over imminent war with Iraq grew. This was compounded by an outbreak of SARS in China, which slowed Asian markets. By late March, the economy began to recover as Baghdad fell, energy prices stabilized, and SARS appeared contained. The consumer drove economic growth as low interest rates allowed for cash out refinancing, putting money into the consumer's pocket. This was followed by the tax rebate checks sent in July and August, which further increased the cash holdings for consumers.

Early in the fiscal year, corporate earnings began to recover as companies relentlessly cut costs. The earnings recovery picked up steam later in the fiscal year as the economic recovery gained momentum. This provided a solid base for the positive performance in the equity markets in the second half of the fiscal year. The total return for the Dow Jones Industrial Average was 25.1% for the 12 months ending September 2003, while the return for the broader S&P 500 was 24.4%. The NASDAQ's price rose 52.5% during the fiscal year. The Federal Reserve lowered interest rates first in November and again in June, bringing the Federal Funds rate down to 1.00%. Inflation remained subdued during the period as the CPI held at an annualized rate of 2.3%

The System's large company Value portfolio achieved a total rate of return of 26.4% for fiscal 2003. This compared favorably with 26.5% for the S&P 500 BARRA Value Index due to the fund's investments in defense and financial stocks and little exposure to technology and telecommunication stocks. The large company Growth portfolio's total rate of return was 25.7% for the fiscal year versus 22.5% for the S&P 500 BARRA Growth Index. Relative out-performance can be attributed to positioning the portfolio for strong economic and market recoveries that began to materialize in the second half of the fiscal year.

On a consolidated basis, the domestic actively managed large capitalization stock portfolio had a total rate of return of 26.1% for fiscal year 2003 compared to 24.4% for the S&P 500 Index. Three-year and five-year annualized returns were -6.9% and 1.4%. This compared with -10.1% and 1.0% for the S&P 500.

At the close of fiscal year 2003, large company Value stocks represented 14.8% of total investments versus 13.9% at the end of fiscal year 2002. Large company Growth stocks represented 14.8% versus 13.7% at the end of fiscal year 2002. Consolidated actively managed large company domestic stocks represented 29.6% of total investments, compared to 27.9% at the end of fiscal year 2002.

The System maintains an investment position with the small company growth managers at Delaware Investment Advisors (Delaware) and Putnam Investments (Putnam).

The System's small company growth portfolio invested with Delaware achieved a total rate of return of 32.5% for fiscal year 2003. This under-performed the Russell 2000 Growth Index, which was 41.7% for the same period.

The System's small company growth portfolio invested with Putnam achieved a total rate of return of 41.7% for fiscal year 2003. This compares favorably with 41.7% for the Russell 2000 Growth Index. Performance was positively impacted by selectivity and an overweight in technology.

At the close of fiscal year 2003, small company growth stocks represented 0.4% of total investments.

Domestic Stocks - Passive

The objective of the enhanced S&P 500 and S&P MidCap Index Funds is to closely match the return performance of their benchmarks, and use low risk strategies to offset transaction costs and add to performance when possible. The S&P 500 Index Fund return for the fiscal year was 24.4% versus the benchmark's 24.4%. The S&P MidCap Index Fund

INVESTMENT SECTION

Report on Investment Activity (Continued)

return for the fiscal year was 26.8% versus its benchmark's 26.8%. The S&P Small Cap Index Fund return for the fiscal year was 26.6% versus the benchmark's 26.9%. An S&P Small Cap Index Fund was established in June of 2002 to match the return of that targeted benchmark. During fiscal year 2003, \$11.4 million was withdrawn from U.S. index funds. At the end of the fiscal year, passive domestic stock portfolios represented 15.0% of total assets, the S&P 500 Index Fund accounting for 13.1%, the S&P MidCap Index Fund 1.7%, and the S&P Small Cap Index Fund 0.2%. Indexed stock portfolios represented 14.4% of total investment assets at the end of the prior fiscal year.

International Equities - Passive

The objective of passive international equity portfolios is to match the return performance of the Citigroup Broad Market Index (BMI) Europe and Pacific Composite (EPAC) adjusted for net dividends. Fifty percent of the benchmark is hedged to the U.S. Dollar and the other half is impacted by foreign currency exchange rate changes. The total passive international return of 22.0% in the fiscal year approximately matched the Citigroup BMI-EPAC return of 21.3%. The passive international return of -9.3% for three years approximately matched the benchmark's return of -9.5% over the same period.

Core passive exposure to international equity returns is achieved primarily by investing in a combination of fixed income notes and equity swap agreements on foreign stock indices in developed markets. Interest on the dedicated notes is exchanged for international stock returns, and the total notional amount of the swap agreements is invested in the approximate proportions of the Citigroup Broad Market Index (BMI) Europe and Pacific Composite (EPAC) country weightings in related indices. Use of swap agreements for a core position began in 1993, and an American Depository Receipts (ADR) and index-related security portfolio was added in June of 1999 to increase management flexibility, and a country fund portfolio was added in September of 2002 to improve exposure to the smallest companies in the BMI index. During fiscal year 2003, \$9.8 million was invested, raising passive international investments to 9.7% of total investment assets.

The combination of fixed income LIBOR notes and equity swap agreements was valued at \$86 million on September 30, 2003. That valuation included a net unrealized loss of \$7.5 million on equity index exposures and an unrealized loss of \$24 thousand on LIBOR note investments held. The combined swap agreement and LIBOR portfolio structure continues to perform like a stock index fund that realizes all gains and losses on a rolling three year basis. During fiscal year 2003, \$9.3 million of losses on equity exposures were realized, \$1.3 million of interest in excess of obligations on completed swaps was recognized, and \$41 thousand of gains on LIBOR notes were realized. At the end of the fiscal year, total realized gains and net interest received in excess of counterparty obligations on completed agreements was \$14.9 million since the program began.

Fixed Income

For the fiscal year ending September 30, 2003, the Fixed Income portfolio returned 5.4% as compiled by CRA RogersCasey. For three years the return was 8.4% and 6.3% for five years.

Rates continued to decline during the year in response to the Federal Reserve's repeated reduction in rates until the middle of June. Bond prices peaked on June 13 and rates, which are inversely related to prices, rose irregularly through the end of the fiscal year validating the fund's earlier shift to a defensive policy.

Fixed Income represented 18.4% of the total portfolio compared with 23.6% last year. Corporates represented 41.7% of fixed income securities and governments accounted for 58.3%. Last year corporates were 42.4% of the total and governments were 57.6%. Government securities continued to outweigh corporates as corporate spreads continued to be narrow.

Real Estate and Mortgages

The System, through real estate advisors and operating joint ventures, acquires, develops, redevelops, and disposes of real estate related investments with the goal of maximizing returns while maintaining an acceptable level of risk.

INVESTMENT SECTION

Report on Investment Activity (Continued)

The investments are held in various investment vehicles that allow the System to enjoy the benefits of real estate ownership while limiting the liability associated with the asset class. The real estate is regularly valued by independent third parties to establish fair market values.

For the fiscal year ending September 30, 2003, real estate represented 9.1% of the System's total investment portfolio. This compares to 10.3%, and 9.5% for the fiscal years ending September 30, 2002, and 2001, respectively.

The real estate portfolio is broadly diversified geographically across the country, by type of property and by class of property. Major property types as of September 30, 2003, included apartments (39%); commercial office buildings (23%); retail centers, including regional malls and grocery-anchored neighborhood shopping centers (20%); and industrial buildings (7%). The remaining 11% of the real estate portfolio was invested in: for sale housing, senior living facilities, hotels, land, and self-storage facilities. For comparison purposes, the System benchmarks its real estate portfolio against the National Council of Real Estate Investment Fiduciaries Property Index (NPI), which is comprised of commercial office buildings (39%), retail centers (20%), apartments (20%), industrial buildings (19%), and hotels (2%).

The one-year, three-year, five-year, and ten-year net real estate returns for the fiscal year ending September 30, 2003, were 6.6%, 8.0%, 9.6%, and 9.1% respectively, as compiled by CRA RogersCasey. This compares to NPI returns of 7.1%, 7.1%, 8.7%, and 9.0% relating to the same periods. NPI returns are calculated before advisor fees/overhead while the System's returns are calculated after all advisor fees/overhead, therefore, the NPI returns stated above have been adjusted downward by 75 basis points to approximate comparable industry returns.

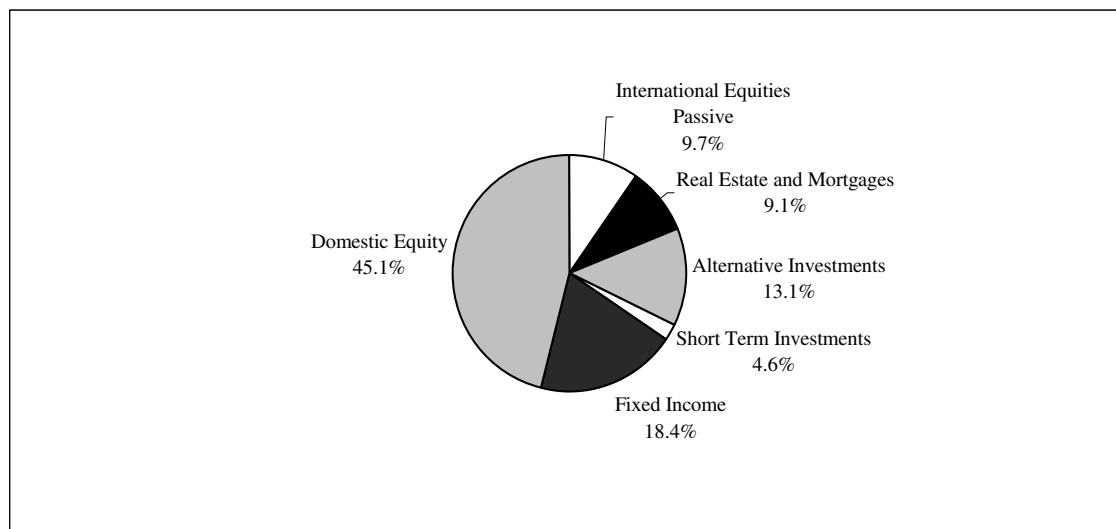
Alternative Investments

Alternative Investments are investments in the private equity market, primarily through limited partnerships. Of the investments in limited partnerships, approximately 61% were in partnerships investing in buyouts, 15% in venture capital, 11% in special situations, and 6% in mezzanine. The remaining 7% were investments in fund of funds, hedge funds, and cash. The percentage of assets in alternative investments as of September 30, 2003, is 13.1%. The asset allocation range for alternative investments is 11% to 16%, while the long-term target asset allocation target is 12.0%.

The one-year, three-year, five-year, and ten-year total alternative investment returns for the fiscal year ending September 30, 2003, were 0.5%, -11.2%, 2.3%, and 11.7%, respectively.

INVESTMENT SECTION

Asset Allocation – Security Type Only



Investment Results for the Period Ending September 30, 2003

Investment Category	Current Year	Annualized Rate of Return ¹		
		3 Years	5 Years	10 Years
Total Portfolio	14.8 %	(3.1) %	3.8 %	8.3 %
Domestic Equities Stock - Active	26.1	(6.9)	1.4	9.6
Domestic Equities Stock - Passive ²	24.7	(9.0)	2.2	10.4
Standard & Poor's (S&P 500)	24.4	(10.1)	1.0	10.1
Standard & Poor's (MidCap)	26.8	(0.7)	12.0	12.8
International Equities - Passive	22.0	(9.3)	1.7	4.1
Net Citigroup BMI - EPAC 50/50	21.3	(9.5)	1.5	3.7
Fixed Income Bonds (U.S. Corp and Govt)	5.4	8.4	6.3	7.0
Citigroup Broad Investment Grade Bond Index	5.5	8.9	6.6	6.9
Lehman Brothers Government/Corporate	6.5	9.6	6.7	7.0
Real Estate and mortgages	6.6	8.0	9.6	9.1
NCREIF minus 75 Basis Points	7.1	7.1	8.7	9.0
Alternative Investments	0.5	(11.2)	2.3	11.7

¹ Calculations used a time-weighted rate of return based on the market rate of return in accordance with AIMR's Performance Presentation Standards.

² Passive portfolio consists of a S&P 500 fund and a S&P Midcap fund. The return is a weighted average of the two funds.

INVESTMENT SECTION

Largest Assets Held

Largest Stock Holdings (By Market Value)* September 30, 2003

Rank	Shares	Stocks	Market Value
1	575,229	Microsoft Corporation	\$ 15,985,607
2	347,916	Citigroup Incorporated	15,833,653
3	506,965	General Electric Corporation	15,112,625
4	487,773	Pfizer Incorporated	14,818,556
5	229,880	Wal-Mart Stores Incorporated	12,838,803
6	316,829	Exxon Mobil Corporation	11,595,937
7	154,949	Wells Fargo & Company	7,979,891
8	101,882	Bank of America Corporation	7,950,879
9	288,046	Intel Corporation	7,924,159
10	104,960	Federal National Mortgage Association	7,368,172

Largest Bond Holdings (By Market Value)* September 30, 2003

Rank	Par Amount	Bonds & Notes	Market Value
1	\$ 5,329,580	U.S. Treasury Strip 0% coupon Due 11/15/2011	\$ 4,995,948
2	4,695,665	FHLB FRN Due 1/12/2007	4,694,558
3	3,745,427	U.S. Treasury TIGER 0% Coupon Due 8/15/2004	3,702,051
4	2,347,832	FHLMC 6 1/2% Due 5/23/2011	2,415,239
5	2,347,832	FHLB 2.2% Due 5/25/2018	2,352,293
6	2,347,832	FHLB FRN Due 7/19/2007	2,347,043
7	2,347,832	FHLB FRN Due 2/3/2006	2,346,385
8	2,347,832	FHLB FRN Due 8/1/2017	2,346,108
9	2,347,832	FHLMC FRN 6 1/2% Due 10/28/2014	2,345,713
10	2,347,832	FHLB FRN Due 9/10/2007	2,344,920

* A complete list of stock and bond holdings is available from the Michigan Department of Treasury.

INVESTMENT SECTION

Schedule of Investment Fees

The State Treasurer is the investment fiduciary and custodian of the System's funds pursuant to State law. Outside advisors are utilized to augment the State Treasurer's internal staff in the real estate and alternative investment markets. Only 13.6% of the total investment portfolio is managed by fully discretionary outside advisors. Outside advisors' fees are netted against the partnership or trust fund income. The Michigan Department of Treasury's cost of operations applicable to the System for the fiscal year amounted to \$215.1 thousand or less than three basis points (.03%) of the market value of the portfolio.

State law created an Investment Advisory Committee (Committee) comprised of the directors of the Department of Consumer and Industry Services and Department of Management and Budget, or their duly authorized representatives, and three public members appointed by the Governor with the advice and consent of the Senate. The public members serve without pay, but are paid actual and necessary travel and other expenses. The Committee meets quarterly to review investments, goals and objectives and may submit recommendations to the State Treasurer. The Committee may also, by a majority vote, direct the State Treasurer to dispose of any holding, which in the Committee's judgment is not suitable for the fund involved, and may by unanimous vote direct the State Treasurer to make specific investments.

Schedule of Investment Fees

Investment Managers' Fees:

	Assets under Management (in thousands)	Fees (in thousands)	Basis Points*
State Treasurer	\$ 842,152.3	\$ 215.1	2.6
Outside Advisors - Alternative	127,916.0	1,610.3	125.9
Real Estate	4,957.5	-	-
Total	\$ 975,025.8		

Other Investment Services Fees:

Assets in Custody	\$ 974,900.7	\$ 65.5
Securities on Loan	24,976.1	417.9

* Outside Advisors Fees are netted against the income of the partnership and trust income. The partnership agreements define the management fees, which range from 150 to 250 basis points of the committed capital, in most cases the fees are netted against income. For Real Estate the asset management fee normally ranges from 25 to 90 basis points and is netted against current year's income.

INVESTMENT SECTION

Schedule of Investment Commissions

	Fiscal Year Ended September 30, 2003		
	Commissions	Number of	Average Commission
	Paid ⁽¹⁾	Shares Traded	Rate Per Share
Investment Brokerage Firms:			
Citigroup Global Markets, Inc.	\$ 12,021	308,619	\$ 0.04
Lehman Brothers, Inc.	10,003	236,654	0.04
Morgan Stanley	8,415	191,494	0.04
Merrill Lynch & Co. Pearce, Fenner & Smith Inc.	7,296	175,580	0.04
Bernstein Investment Research & Management	6,750	142,608	0.05
Bridge Trading, A Reuters Company	6,149	145,185	0.04
Bear Stearns & Co. Inc.	6,069	137,001	0.04
Prudential Securities, Inc.	5,491	111,155	0.05
Credit Suisse First Boston Corporation	5,369	111,090	0.05
Goldman, Sachs & Co.	4,654	102,177	0.05
UBS Financial Securities	4,064	84,831	0.05
J. P. Morgan Securities, Inc.	3,626	72,521	0.05
Deutsche Bank Securities Inc.	2,034	40,690	0.05
SG Cowen Securities Corporation	1,957	39,131	0.05
International Strategy & Investment Group Inc.	1,504	30,076	0.05
Banc of America Securities, LLC	1,397	27,945	0.05
OTA LLC	1,049	25,700	0.04
Charles Schwab & Co., Inc.	877	17,540	0.05
Cantor Fitzgerald & Co.	787	26,249	0.03
Keefe, Bruyette & Woods, Inc.	551	11,023	0.05
Howard, Weil, Labouisse, Friedrichs Inc.	436	8,720	0.05
CL Global	1	41	0.02
Total	\$ 90,500	2,046,030	\$ 0.04 ⁽²⁾

⁽¹⁾ These amounts are included in purchase and sale prices of investments.

⁽²⁾ The average commission rate per share for all brokerage firms.

INVESTMENT SECTION

Investment Summary

Fiscal Year Ended September 30, 2003

	Market Value (a)	Percent of Total Market Value	Investment & Interest Income (c)	Percent of Investment & Interest Income
Fixed Income:				
Government Bonds	\$ 104,709,133	10.7%	\$ 3,182,977	2.4%
Corporate Bonds	75,025,111	7.7%	6,626,940	4.9%
Total Fixed Income	179,734,244	18.4%	9,809,917	7.3%
Common and Preferred Stock	438,922,039	45.1%	94,996,948	70.3%
Real Estate and Mortgages	89,100,959	9.1%	5,825,294	4.3%
Alternative Investments	127,916,004	13.1%	7,339,236	5.4%
International Equities	94,128,898	9.7%	16,631,030	12.3%
Short Term Investments (b)	45,223,629	4.6%	609,259	0.4%
Total	\$ 975,025,773	100.0%	\$ 135,211,684	100.0%

(a) Short Term Investments are at cost, which approximates market value.

(b) Excludes the amounts payable and receivable for sales and purchases of securities with a settlement date after September for each fiscal year. Amount also excludes \$24,893,895 in cash collateral for security lending for fiscal year 2003.

(c) Total Investment & Interest Income excludes net security lending income of \$86,650 for fiscal year 2003.

INVESTMENT SECTION

Investment Summary (Continued)

Fiscal Year Ended September 30, 2002

	Market Value (a)	Percent of Total Market Value	Investment & Interest Income (c)	Percent of Investment & Interest Income
Fixed Income:				
Government Bonds	\$ 120,009,649	13.6%	\$ 8,531,291	-8.0%
Corporate Bonds	88,223,414	10.0%	7,533,184	-7.1%
Total Fixed Income	208,233,063	23.6%	16,064,475	-15.1%
Common and Preferred Stock	371,633,423	42.2%	(88,622,582)	83.4%
Real Estate and Mortgages	90,991,336	10.3%	7,314,410	-6.9%
Alternative Investments	131,176,474	14.9%	(29,359,523)	27.6%
International Equities	68,066,066	7.7%	(12,516,316)	11.8%
Short Term Investments (b)	11,802,788	1.3%	846,356	-0.8%
Total	\$ 881,903,150	100.0%	\$ (106,273,180)	100.0%

(a) Short Term Investments are at cost, which approximates market value.

(b) Excludes the amounts payable and receivable for sales and purchases of securities with a settlement date after September for each fiscal year. Amount also excludes \$40,124,269 in cash collateral for security lending for fiscal year 2002.

(c) Total Investment & Interest Income excludes net security lending income of \$207,283 for fiscal year 2002.

ACTUARIAL SECTION

Actuary's Certification
Summary of Actuarial Assumptions and Methods
Schedule of Active Member Valuation Data
Retirant and Beneficiary Data
Prioritized Solvency Test
Analysis of Financial Experience
Summary of Plan Provisions

Actuary's Certification



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Michael J. Karlin, F.S.A., M.A.A.A.
Senior Vice President & Actuary
mkarlin@segalco.com

November 12, 2003

Mr. Mitch Irwin
Director
Department of Management and Budget
and
Retirement Board
Michigan State Police Retirement System
P.O. Box 30176
Lansing, Michigan 48909

Ladies and Gentlemen:

The Michigan State Police Retirement System (MSPRS) is funded on an actuarial reserve basis. The basic financial objective of MSPRS is to establish and receive contributions that remain approximately level as a percentage of active member payroll over a long period of years.

Actuarial valuations are prepared annually to determine MSPRS's actuarial liabilities and the employer contributions required to fund the System in accordance with the actuarial reserve funding provisions of the governing State Statute. The most recent actuarial valuation as of September 30, 2002 included a total of 4,524 members of MSPRS. The actuarial value of MSPRS's assets amounted to approximately \$1,141.3 million on September 30, 2002.

The actuarial assumptions used in the 2002 valuation are the same as those used in the previous annual actuarial valuation. These assumptions produce valuation results which we consider to be reasonably indicative of the plan's underlying cost. Also, in our opinion, the actuarial assumptions and methods used for funding purposes meet the parameters for the disclosures presented in the financial section by GASB Statement No. 25.

Our actuarial valuation of MSPRS as of September 30, 2002 was performed by qualified actuaries in accordance with accepted actuarial procedures. In our opinion, the calculated contribution rate meets the fundamental objectives of State law. Based on the 2002 valuation results, it is also our opinion that the Michigan State Police Retirement Retirement System continues in sound condition, in accordance with actuarial principles of level cost financing.

Most of the information used in the supporting schedules in the Actuarial and Statistical Sections, as well as the Schedules of Funding Progress and the employer contributions shown in the Schedules of Employer Contributions in the Financial Section of this report were provided by our firm.

Sincerely,

Michael Karlin, F.S.A., M.A.A.A.
Senior Vice President & Actuary

Benefits, Compensation and HR Consulting ATLANTA BOSTON CHICAGO CLEVELAND DENVER HARTFORD HOUSTON LOS ANGELES MINNEAPOLIS
NEW ORLEANS NEW YORK PHILADELPHIA PHOENIX SAN FRANCISCO SEATTLE TORONTO WASHINGTON, DC



Multinational Group of Actuaries and Consultants AMSTERDAM BARCELONA GENEVA HAMBURG LONDON MELBOURNE MEXICO CITY OSLO PARIS

ACTUARIAL SECTION

Summary of Actuarial Assumptions and Methods

1. The investment return rate used in making the valuations was 8% per year, compounded annually. This rate of return is not the assumed real rate of return. Considering other financial assumptions, this 8% investment return rate translates to an assumed real rate of return of 4%. Adopted 1994.
2. The mortality table used in evaluating allowances to be paid was the 1994 Group Annuity Mortality Table, set forward one year for both men and women. Adopted 1998.
3. Sample probabilities of retirement with an age and service allowance are shown in Schedule 1 on the next page. Adopted 1998.
4. Sample probabilities of withdrawal from service and disability, together with individual pay increase assumptions, are shown in Schedule 2 on the next page. Adopted 1998.
5. Total active member payroll is assumed to increase 4% per year. This represents the portion of the individual pay increase assumptions attributable to inflation. In effect, this assumes no change in the number of active members. Adopted 1998.
6. An individual entry age actuarial cost method of valuation was used in determining age and service allowance actuarial liabilities and normal cost. Unfunded actuarial accrued liabilities, including actuarial gains and losses, are financed over a period of 50 years and over a declining 40 year period for years beginning October 1, 1986. Adopted 1986.
7. The Department of Management and Budget approved the use of market value of assets as of September 30, 1997, for actuarial valuation purposes. For investment gains or losses that occur after that date, a 5-year smoothing technique will be used. Specifically, the excess (shortfall) of actual investment income (including interest, dividends, realized and unrealized gains or losses) over the imputed income at the valuation interest rate is considered the gain (loss), which is spread over 5 years. Adopted 1997.
8. The data about persons now covered and about present assets was furnished by the System's administrative staff. Although examined for general reasonableness, the data were not audited by the actuary.
9. The actuarial valuation computations were made by or under the supervision of a Member of the American Academy of Actuaries (MAAA). The assumptions used in the actuarial valuations were adopted by the System's Board after consulting with the actuary.

ACTUARIAL SECTION

Summary of Actuarial Assumptions and Methods (Continued)

SCHEDULE 1

Percent of Eligible Active Members Retiring Within Next Year

<u>Retirement Ages</u>	<u>Percent of Eligible Active Members Retiring Within Next Year</u>
44-49 (first year eligible to retire)	50 %
44-49 (after first year eligible to retire)	25
50-57	25
58	35
59	50
60	65
61	80
62-63	100
64 and over	100

SCHEDULE 2

Separation From Active Employment Before Age & Service Retirement & Individual Pay Increase Assumptions

<u>Sample Ages</u>	<u>Years of Service</u>	<u>Percent of Active Members Withdrawing Within Next Year (Men and Women)</u>	<u>Percent of Active Members Becoming Disabled Within Next Year</u>	<u>Percent Increase In Pay During Next Year*</u>
All	0	6.50 %		
	1	4.00		
20	2 & Over	2.00	0.30 %	11.30 %
25	"	2.00	0.31	10.70
30	"	1.50	0.31	7.85
35	"	0.60	0.32	6.10
40	"	0.35	0.36	5.24
45	"	0.35	0.43	4.89
50	"	0.35	0.53	4.86
55	"		0.63	4.68
60	"		0.75	4.68

*These rates apply after 2 years of service. During the first 3 years, the assumed increases are 84%, 19% and 14% respectively.

ACTUARIAL SECTION

Actuarial Valuation Data

Schedule of Active Member Valuation Data

<u>Valuation Date Sept. 30</u>	<u>Number</u>	<u>Reported Annual Payroll</u>	<u>Average Annual Pay</u>	<u>% Increase</u>	<u>Average Age</u>	<u>Average Service</u>
1993	1,885	\$ 86,791,793	\$ 46,043	1.7 %	39.9	15.1
1994	1,992	88,623,068	44,490	(3.4)	38.8	13.7
1995	2,181	104,500,048	47,914	7.7	37.9	13.0
1996	2,135	106,826,272	50,036	4.4	38.2	13.1
1997	2,090	110,085,960	52,673	5.3	38.2	12.9
1998	2,220	108,183,040	48,731	(7.5)	37.5	11.6
1999	2,216	116,910,216	52,757	8.3	37.0	11.5
2000	2,210	116,558,417	52,741	(0.0)	37.2	11.6
2001	2137	118,788,227	55,586	5.4	37.9	12.2
2002	2048	124,366,038	60,726	9.3	38.5	12.8

Retirant and Beneficiary Data Rolls End of Year

<u>Year Ended Sept. 30</u>	<u>Number</u>			<u>Average Monthly Benefit</u>			<u>Average Age</u>		
	<u>Pensioners</u>	<u>Widows</u>	<u>Children</u>	<u>Pensioners</u>	<u>Widows</u>	<u>Children</u>	<u>Pensioners</u>	<u>Widows</u>	<u>Children</u>
1993	1,357	282	3	\$ 1,697	\$ 879	\$ 100	60.4	66.7	15.3
1994	1,483	273	3	1,721	938	100	60.5	69.5	16.4
1995	1,548	279	4	1,770	962	100	60.8	69.6	14.8
1996	1612	397	6	1,845	1,001	100	61.6	69.3	10.3
1997	1,703	310	5	1,963	1,192	419	62.5	70.4	10.7
1998	1,820	314	5	2,062	1,225	499	62.8	71.0	10.1
1999	1,893	334	4	2,141	1,263	499	63.1	71.5	10.8
2000	1,968	345	6	2,227	1,308	366	61.9	71.9	10.4
2001	2,023	353	6	2,298	1,357	366	62.5	73.3	11.4
2002	2,095	361	6	2,378	1,415	366	62.6	72.7	16.3

Prioritized Solvency Test

The System's funding objective is to meet long term benefit promises through contributions that remain approximately level from year to year as a percent of member payroll. If the contributions to the System are level in concept and soundly executed, the System will pay all promised benefits when due, the ultimate test of financial soundness. Testing for level contribution rates is the long-term solvency test.

A prioritized solvency test is another means of checking a system's progress under its funding program. In a short condition test, the plan's present assets (cash and investments) are compared with: (1) active member contributions on deposit; (2) the liabilities for future benefits to present retired lives; and (3) the liabilities for service already rendered by active and inactive members. In a system that has been following the discipline of level percent of payroll financing, the liabilities for active member contributions on deposit (liability 1) and the liabilities for future benefits to present retired lives (liability 2) will be fully covered by present assets (except in rare circumstances). In addition, the liabilities for service already rendered by active members (liability 3) is normally partially covered by the remainder of present assets. Generally, if the System has been using level-cost financing, the funded portion of liability 3 will increase over time. Liability 3 being fully funded is not necessarily a byproduct of level percent of payroll funding methods.

The schedule below illustrates the history of the liabilities of the System and is indicative of the System's policy of following the discipline of level percent of payroll financing.

<u>Actuarial Accrued Liability (\$ in Thousands)</u>								
	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>					
Valuation Date	Active Member Contributions	Retirants and Beneficiaries	Active and Inactive Members (Employer Financed Portion)	Valuation Assets	Portion of Present Value Covered by Assets			
Sept. 30					<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>(4) ³</u>
1993	\$ 2,133	\$ 330,629	\$ 347,749	\$ 526,193	100 %	100 %	55.6 %	77.3 %
1993 ²	2,133	330,629	347,749	530,936	100	100	57.0	78.0
1994	1,770	370,681	336,847	566,541	100	100	57.6	79.9
1994 ¹	1,770	394,292	315,779	566,541	100	100	54.0	79.6
1995	1,497	422,960	374,363	622,626	100	100	52.9	77.9
1996	1,183	459,985	362,293	697,923	100	100	65.3	84.8
1997	847	516,379	363,100	787,240	100	100	74.4	89.4
1997 ²	847	516,379	363,100	928,714	100	100	113.3	105.5
1997 ⁴	847	516,379	395,533	928,714	100	100	104.0	101.7
1998	614	593,169	349,941	974,365	100	100	108.8	103.2
1998 ¹	614	604,724	357,130	974,365	100	100	103.3	101.2
1999	273	643,284	362,971	1,036,840	100	100	108.4	103.0
2000	198	685,272	355,244	1,113,065	100	100	120.4	107.0
2001	197	717,244	356,192	1,148,609	100	100	121.0	107.0
2002	113	759,929	375,616	1,141,348	100	100	101.5	100.5

¹ Revised asset valuation assumptions.

² Revised asset valuation method.

³ Percents funded on a total valuation asset and total actuarial accrued liability basis.

⁴ Revised inflation assumption.

ACTUARIAL SECTION

Analysis of Financial Experience

Gains/(Losses) in Accrued Liabilities During Year Ended September 30, 2002 Resulting from Differences Between Assumed Experience & Actual Experience

<u>Type of Activity</u>	<u>Gain/(Loss)</u>
1. Retirements (including Disability Retirement). If members retire at older ages or with lower final average pay than assumed, there is a gain. If younger ages or higher average pays, a loss.	(\$4,117,344)
2. Withdrawal From Employment (including death-in-service). If more liabilities are released by withdrawals and deaths than assumed, there is a gain. If smaller releases, a loss.	1,677,502
3. Pay Increases. If there are smaller pay increases than assumed, there is a gain. If greater increases, a loss.	(8,600,272)
4. Investment Income. If there is greater investment income than assumed, there is a gain. If less income, a loss.	(55,626,616)
5. Death After Retirement. If retirants live longer than assumed, there is a loss. If not as long, a gain.	(4,053,538)
6. New entrants. New entrants into the System will generally result in an actuarial loss. This does not apply to plans closed to new entrants.	0
7. Other. Miscellaneous gains and losses resulting from data adjustments, timing of financial transactions, etc.	<u>72,588</u>
8. Composite Gain (or Loss) During Year	<u><u>(\$70,647,680)</u></u>

Summary of Plan Provisions

Our actuarial valuation of the System as of September 30, 2002, is based on the present provisions of Public Act 182 of 1986, as amended.

Regular Retirement

Eligibility — 25 years of credited service with no age requirement; or age 50 with 10 years credited service.

Annual Amount — If member has 25 or more years of credited service, 60% of final average compensation; if member has less than 25 years of credited service, total credited service times 2% of final average compensation.

Type of Final Average Compensation — Average of 2 final years.

Early Retirement

None.

Deferred Retirement (vested benefit)

Eligibility — 10 years of credited service. Benefit commences at age 50.

Annual Amount — Computed as Regular Retirement benefit based on credited service and final average compensation at termination.

Duty-Disability Retirement

Eligibility — No age or service requirement.

Annual Amount — 60% of final average compensation. Disability benefit plus workers' compensation benefit, if any, shall not exceed 100% of final average compensation.

Non-Duty Disability Retirement

Eligibility — 10 years of credited service.

Annual Amount — 2.4% of final average compensation times years of credited service, to a maximum of 60% of final average compensation.

Duty Death Before Retirement

Eligibility — No age or service requirement.

Annual Amount — 60% of final average compensation is payable to surviving spouse; additional \$1,200 per year for each child under 18 is also payable. If no surviving spouse, children under 18 share in 60% benefit until attainment of age 18. If no spouse or children, dependent parents are eligible for 60% benefit (plus \$1,200 per dependent sibling under 18). Retirement benefit plus workers' compensation, if any, shall not exceed 100% of final average compensation.

Lump Sum Payment — A \$1,500 funeral benefit is also payable.

ACTUARIAL SECTION

Summary of Plan Provisions (Continued)

Non-Duty Death Before Retirement

Eligibility — 10 years of credited service.

Annual Amount — 2.4% of final average compensation times years of credited service, to a maximum of 60% of final average compensation, payable to surviving spouse. If no surviving spouse, children under 18 share in benefit until attainment of age 18.

Death After Retirement

The retired member's benefit continues to the surviving spouse. If no surviving spouse, children under 18 share in the continued benefit until attainment of age 18.

Post-Retirement Cost-of-Living Adjustments

All members retiring (or leaving employment with vested benefits), and their survivors, are eligible for automatic 2% annual (non-compounded) benefit increases, with a maximum annual increase of \$500.

Post-Retirement Health Insurance Coverage

Persons in receipt of retirement allowances, and their dependents, are eligible for 95% State-paid health insurance coverage and 90% State-paid dental and vision insurance.

Member Contributions

None.

STATISTICAL SECTION

Schedule of Revenues by Source
Schedule of Expenses by Type
Schedule of Benefit Expenses by Type
Schedule of Retired Members by Type of Benefit
Schedule of Average Benefit Payments
Ten Year History of Membership

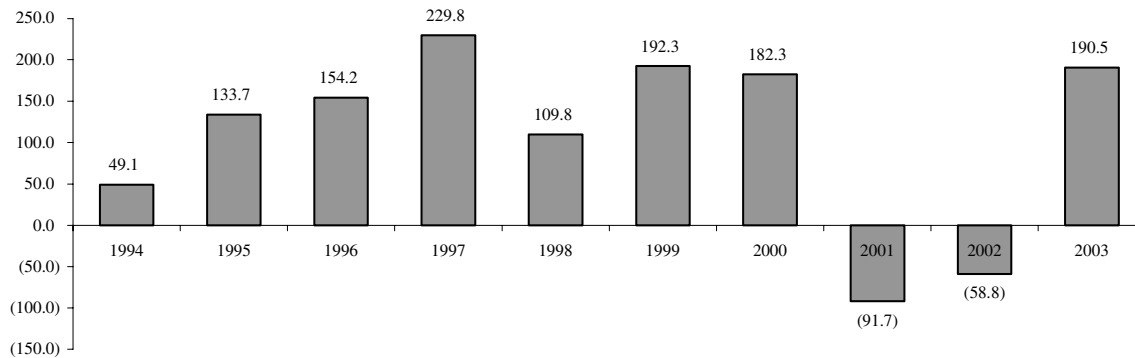
STATISTICAL SECTION

Schedule of Revenues by Source

Fiscal Year Ended Sept. 30	Member Contributions	Employer Contributions		Net Investment & Other Income	Total
		Dollars	% of Annual Covered Payroll		
1994	\$ 45,384	\$ 35,945,995	40.6 %	\$ 13,065,959	\$ 49,057,338
1995	71,008	37,754,338	36.1	95,862,258	133,687,604
1996	76,743	53,135,642	49.7	100,983,575	154,195,960
1997	712,799	51,851,631	47.1	177,235,892	229,800,322
1998	922,736	33,123,384	30.6	75,726,277	109,772,397
1999	1,000,518	34,447,886	29.5	156,896,728	192,345,132
2000	1,115,233	36,528,809	31.3	144,657,843	182,301,885
2001	1,462,642	44,646,018	37.6	(137,798,523)	(91,689,863)
2002	1,493,313	47,727,108	38.4	(108,017,248)	(58,796,827)
2003	1,579,307	55,552,093	N/A	133,377,555	190,508,955

N/A Not Available.

Total Revenue
Year Ended September 30
(In Millions)



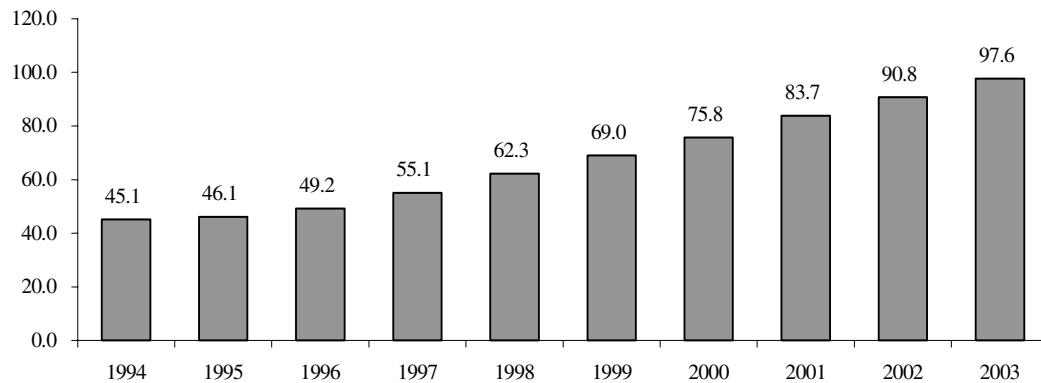
STATISTICAL SECTION

Schedule of Expenses by Type

<u>Fiscal Year Ended Sept. 30</u>	<u>Benefit Payments*</u>	<u>Refunds and Transfers</u>	<u>Administrative and Other Expenses</u>	<u>Total</u>
1994	\$ 44,629,521		\$ 449,033	\$ 45,078,554
1995	45,639,290		493,400	46,132,690
1996	48,795,509		429,986	49,225,495
1997	54,912,395		202,828	55,115,223
1998	62,083,435		225,327	62,308,762
1999	68,693,133	\$ 4,694	322,997	69,020,824
2000	75,631,405		158,935	75,790,340
2001	83,431,499	6	298,711	83,730,216
2002	90,447,652		353,403	90,801,055
2003	97,188,150		423,745	97,611,895

*Includes health, dental and vision benefits.

Total Expenses
Year Ended September 30
(In Millions)

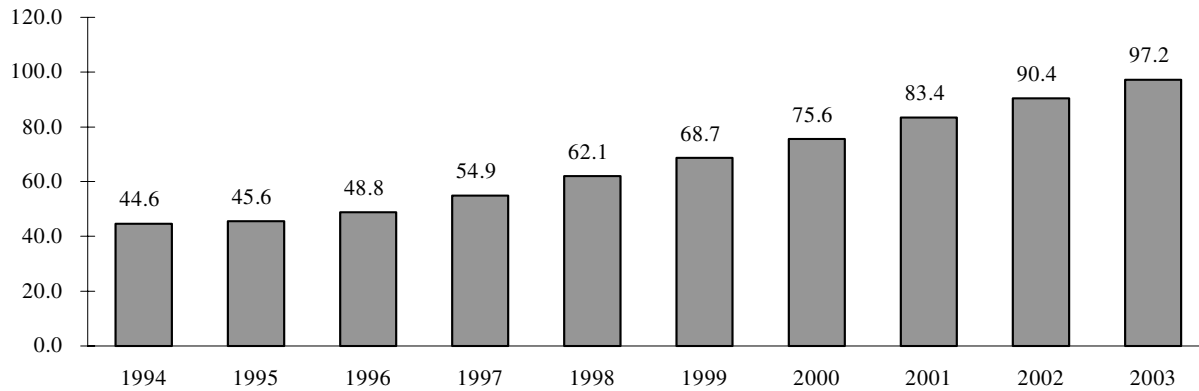


STATISTICAL SECTION

Schedule of Benefit Expenses by Type

<u>Fiscal Year Ended Sept. 30</u>	<u>Regular Benefits</u>	<u>Disability Benefits</u>	<u>Funeral Benefits</u>	<u>Health Benefits</u>	<u>Total</u>
1994	\$ 30,915,357	\$ 2,127,957	\$ 3,000	\$ 11,583,207	\$ 44,629,521
1995	33,141,186	2,366,398		10,131,706	45,639,290
1996	35,794,961	2,482,429	1,500	10,516,619	48,795,509
1997	40,536,134	2,782,100		11,594,161	54,912,395
1998	45,216,692	3,010,640		13,856,103	62,083,435
1999	49,330,784	3,155,805		16,206,544	68,693,133
2000	53,466,267	3,223,915	3,000	18,938,222	75,631,405
2001	57,019,158	3,388,237		23,024,104	83,431,499
2002	60,747,711	3,670,419		26,029,522	90,447,652
2003	66,277,685	3,873,103	1,500	27,035,862	97,188,150

Total Benefit Expenses
For Year Ended September 30
(In Millions)



STATISTICAL SECTION

Schedule of Retired Members by Type of Benefit

September 30, 2002

Amount Monthly Benefit	Number of Retirees	Type of Retirement *						Option**
		1	2	3	4	5	6	Life
\$ 001 - 400	40	29	1	3	2	3	2	40
401 - 800	129	103	6	2	6	0	12	129
801 - 1,200	360	166	138	27	4	17	8	360
1,201 - 1,600	309	203	55	27	11	6	7	309
1,601 - 2,000	187	136	23	11	6	4	7	187
2,001 - 2,400	184	136	18	19	7	1	3	184
2,401 - 2,800	384	337	21	17	3	2	4	384
2,801 - 3,200	477	463	6	6	2	0	0	477
3,201 - 3,600	241	234	3	2	0	0	2	241
3,601 - 4,000	99	97	0	2	0	0	0	99
Over 4,000	52	52	0	0	0	0	0	52
Totals	2,462	1,956	271	116	41	33	45	2,462

* Type of Retirement

- 1 - Normal retirement for age & service
- 2 - Survivor payment - normal retirement
- 3 - Duty disability retirement
- 4 - Non-duty disability retirement
- 5 - Survivor payment - duty death in service
- 6 - Survivor payment - non-duty death in service

**Selected Option

Life - 100% Joint and Survivors

Source: The Segal Company

STATISTICAL SECTION

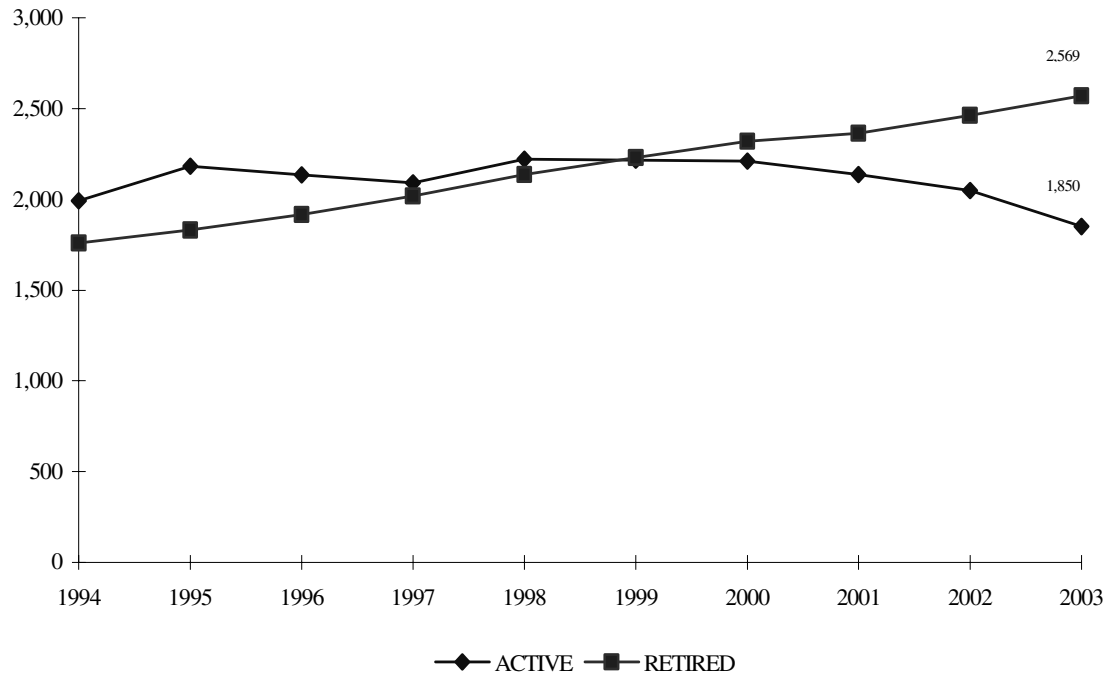
Schedule of Average Benefit Payments

Retirement Effective Dates		Years Credited Service							
		0-5	5-10	10-15	15-20	20-25	25-30	30+	Total
Period 10/1/96 to 9/30/97:									
	Average Monthly Benefit	\$ 750	\$ 1,112	\$ 789	\$ 1,016	\$ 1,324	\$ 1,971	\$ 2,295	\$ 1,840
	Average Final Average Salary	2,411	18,858	21,369	21,482	25,967	34,903	42,786	32,846
	Number of Active Retirants	86	20	70	67	98	1,463	214	2,018
Period 10/1/97 to 9/30/98:									
	Average Monthly Benefit	\$ 731	\$ 1,188	\$ 819	\$ 1,114	\$ 1,351	\$ 2,084	\$ 2,392	\$ 1,936
	Average Final Average Salary	2,116	21,238	23,006	22,791	26,112	36,912	44,432	34,509
	Number of Active Retirants	98	22	75	70	98	1,548	227	2,138
Period 10/1/98 to 9/30/99:									
	Average Monthly Benefit	\$ 746	\$ 1,196	\$ 856	\$ 1,120	\$ 1,401	\$ 2,173	\$ 2,489	\$ 2,006
	Average Final Average Salary	1,852	22,257	24,530	22,790	27,318	38,441	45,879	35,702
	Number of Active Retirants	112	23	85	70	102	1,601	238	2,231
Period 10/1/99 to 9/30/00:									
	Average Monthly Benefit	\$ 938	\$ 1,408	\$ 854	\$ 1,124	\$ 1,421	\$ 2,267	\$ 2,569	\$ 2,086
	Average Final Average Salary	8,313	25,199	24,827	23,537	27,727	39,975	47,088	37,065
	Number of Active Retirants	141	25	86	67	103	1,651	246	2,319
Period 10/1/00 to 9/30/01:									
	Average Monthly Benefit	\$ 1,074	\$ 1,464	\$ 891	\$ 1,164	\$ 1,451	\$ 2,344	\$ 2,618	\$ 2,154
	Average Final Average Salary	11,602	26,268	25,563	24,298	27,958	41,278	47,650	38,158
	Number of Active Retirants	161	29	85	63	107	1,684	253	2,382
Period 10/1/01 to 9/30/02:									
	Average Monthly Benefit	\$ 1,151	\$ 1,489	\$ 933	\$ 1,189	\$ 1,521	\$ 2,429	\$ 2,723	\$ 2,232
	Average Final Average Salary	12,384	26,268	26,758	24,660	28,922	42,597	49,290	39,331
	Number of Active Retirants	174	29	91	64	107	1,736	261	2,462

Source: The Segal Company

STATISTICAL SECTION

Ten Year History of Membership Fiscal Year Ended September 30



Source: The Segal Company

ACKNOWLEDGMENTS

The *Michigan State Police Retirement System Comprehensive Annual Financial Report* is prepared by Financial Services, Fiscal Management Division. Staff of the division for the fiscal year 2002-2003 report included:

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The report may be viewed on-line at: www.michigan.gov/ors